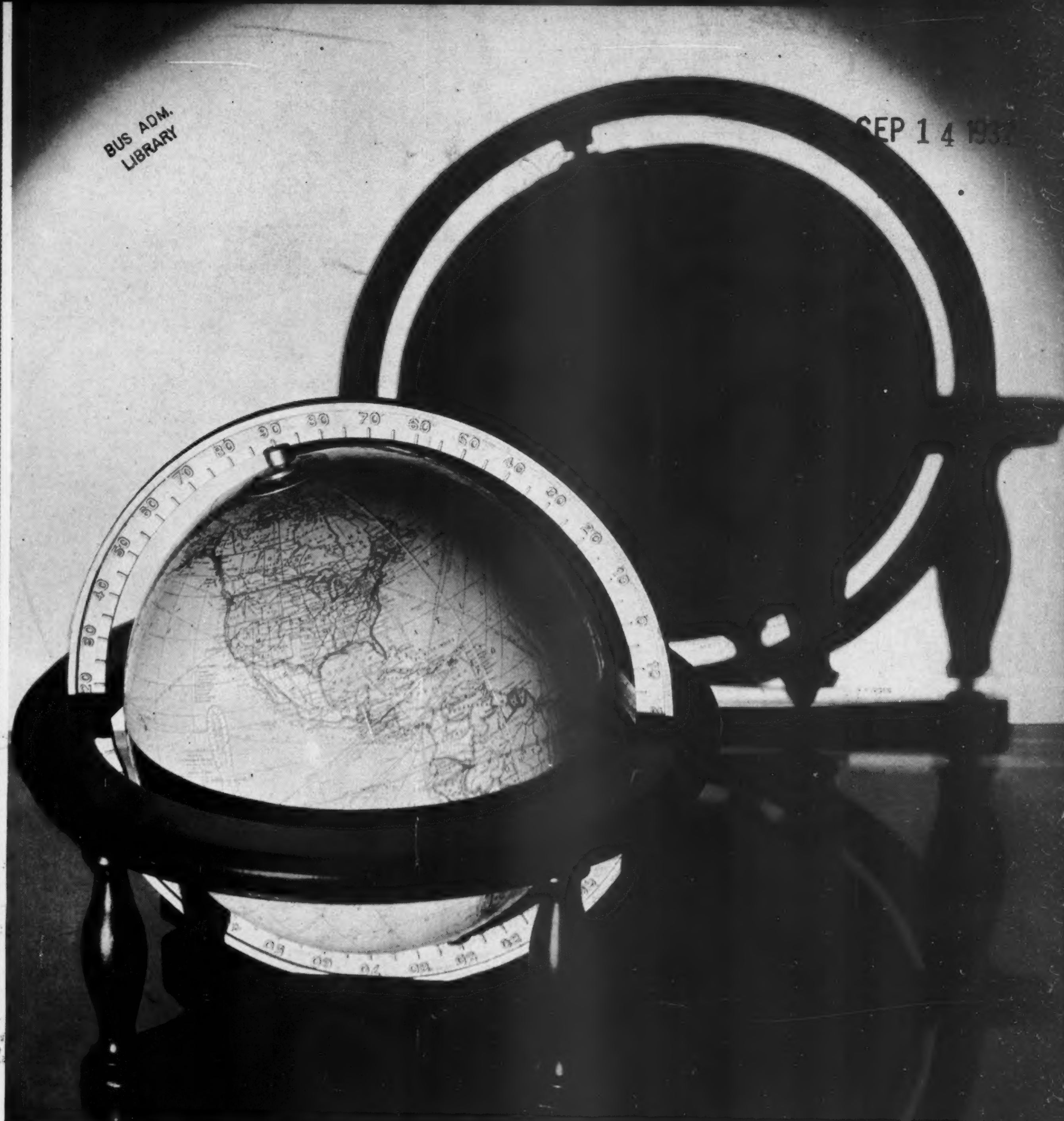

CREDIT and FINANCIAL MANAGEMENT

ol. 34, No. 9 SEPTEMBER, 1932 Established 1898

he Glass bill under the glass - - - - - - COL. JAMES L. WALSH

Accounting for better credits

ventory control - - - - - - - - - - - FRANK BROAKER

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ppreciate appreciation! - - - - - - - MYRON M. STRAIN

udgets and credits - - - - - - - DR. RAYMOND B. PINCHBECK

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Somehow the fact that an inspector's business leads him into many strange places and close to the intimate affairs of all types of people suggests mystery and super-human requirements for the accomplishment of his task; that every day the inspector holds close communion with stark drama and underworld tragedy.

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Looking ahead

Because Fire Prevention Week comes in October, we are planning a special insuarance issue for that month featuring the tie-in between credits safe-guarded by adequate protection against fire-loss. This is another step in the N. A. C. M.'s campaign to combat our annual half-billion dollar fire waste.

Among the authors will be Walter Bennett of the National Association of Insurance Agents, P. D. Betterly who will write on business insurance, besides two other insurance articles. Dr. Pinchbeck will complete his study of budgetary control and Myron M. Strain will be featured with his third article analyzing factors that disturb credit grantors; this piece being concerned with prepaid expenses and current assets.

Our cover

With the American elections approaching shortly, the Wall street market reviving, and the Ottowa conference recently in session, the spotlight is turned on North America. The photograph by M. E. Hare, our staff photographer, depicts this in a camera study from the Old Masters Studio, N. Y.

CREDIT and FINANCIAL MANAGEMENT

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Hay fever thinking

This is not a medical treatise on the causes and cures of hay fever. Rather it is an application of the psychology of hay fever thinking to economic ideas and principles.

A very good friend of mine, Dr. A. A. Thommen, who is making life livable for me during hay fever season, recently told me an interesting story. Another doctor was discussing with him the treatment of hay fever. This doctor had certain beliefs concerning hay fever which were without adequate or scientific foundation. As a result of this experience, Dr. Thommen prepared a paper on "Hay Fever—Fact, Fancy and Fallacy", which was published in the August Third issue of the *Medical Journal and Record*.

In this treatise, Dr. Thommen said, "There are few ailments concerning which there is so much general misinformation among the laity, and to some extent, among the profession as well, as hay fever." He listed as some of the most important hay fever fallacies the following: that hay fever is contagious; that Goldenrod causes hay fever; that hay fever is a disease of the eyes and nose; that hay fever is trivial; that hay fever can be cured by a nasal operation; that hay fever is caused by hay; that hay fever is a fever, etc. Yet every one of these fallacies is commonly accepted as a fact by the laity, and some of them by doctors. Hay fever is so commonly known that almost everyone professes to understand a great deal about it, hay fever sufferers in particular. I can think of nothing in contemporary life that illustrates so well the muddy, inaccurate and "hear-say" thinking of people who cannot be bothered with seeking out facts. People think they know so much about hay fever because it is so much talked about.

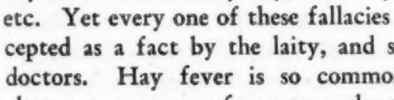
I have reached the conclusion that hay fever thinking harms our economic body just as much as hay fever ailments harm the human body.

Hay fever thinking is the mental process and habit of believing what the largest number of people in the circle of one's acquaintance believe. It is "hear-say" thinking. We hear someone else make a statement of opinion and no matter how ill-founded or inaccurate it may be, we repeat the statement as a fact. And there is no belief that an individual will defend with so much righteous indignation as a wrong belief.

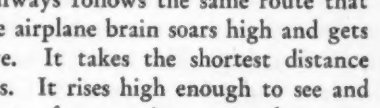
In the field of economics, hay-fever thinking is rampant. Even real leadership is powerless in the face of unsound, mass economic thinking. Is there any better example of the growth of a national calamity from the trivial incipiency of hay fever thinking than the market debacle in 1929? A majority of the literate people in this country were taking tips and hunches—and running margin accounts. Hear-say thinking superseded economic thinking. As a result, around six billion dollars were taken out of the purchasing power reservoir and money velocity channels and congealed in brokers' loans. Calamity and catastrophe followed! And the root of the whole trouble was hay fever thinking.

In our economic thinking "they say" is substituted for "the facts indicate." In prosperous days the man who warns others of economic trouble ahead is a 'crank and a fool.' In depression days the man who sees an indication of dawn on the dark, clouded economic horizon is an incurable optimist. Hay fever thinkers are never balanced. They go to one extreme or the other. A brain should be like an airplane instead of a railroad locomotive. The locomotive runs on tracks, back and forth, from one station to the other, always by the same route. The locomotive type of brain, common among 'hear-say' thinkers, always stays on the track—and generally a narrow-gauge track. This track is really nothing more than mass opinion. It always follows the same route that others follow. The airplane brain soars high and gets a broad perspective. It takes the shortest distance between two points. It rises high enough to see and comprehend all parts of economic topography.

Is there any cure for this least-resistance, 'hear-say', hay fever thinking? The cures seem simple. In your own mind challenge every statement that is made to you. Don't disagree with the other fellow and argue with him. Argue the merits and demerits with yourself. Make it a rule never to believe nor repeat any economic statement anyone else makes until you have investigated its foundations and concluded factually that the statement is right. Don't mistake prejudiced, personal opinions for facts. Find out whether a man is stating his own opinion or another's. See if his "I think" really doesn't mean "They say". This habit of mental challenge, unless adopted by everyone—which it won't be—may not improve the general level of mass thinking, but it will protect you against the fallacies and mistakes of hay fever thinking. As an individual you can protect yourself to a large degree against the devitalizing and debilitating effects of economic epidemics.



Chester H. McCall



The business

a compilation of business and

Straws in the wind

Blow hot, blow cold—the following straws indicate the strength and direction of the trade winds in recent weeks:

BANK CLEARINGS: Bank clearings registered a periodic decline during the week ended August 10, but fell much more sharply than the season warrants, in spite of continued stock market activity. Clearings from 47 leading cities of the United States, as reported to Bradstreet's, totalled $4,245,073,000 for the week, a loss of 16.5 per cent. from the previous week and of 36.4 per cent. from the corresponding week a year ago. Clearings outside of New York City amounted to $1,451,922,000.—11.1 per cent. less than the week before and 37.7 per cent. below a year ago.

BANK SUSPENSIONS: Bank suspensions in the United States for the week of Aug. 12 dropped to sixteen, while reopenings rose to six, according to "The American Banker." In each of the two preceding weeks twenty-one banks failed. Last week's suspensions involved banks with deposits totaling about $3,000,000. Of the banks which closed in 1931 at least 150 have been replaced by new units, while 201 were reopened, it is stated.

BUSINESS FAILURES: Bradstreet's seasonally adjusted index of monthly failures rose to a new high of 152.6 per cent. of the 1928-'30 average during July. The 2,547 failures reported in July compare with 2,489 in June and 1,931 in July 1931. Although New York City failures fell from 367 to 285, liabilities were considerably larger.

COMMODITY PRICES: Wholesale commodity prices continued their rise, according to the Bureau of Labor Statistics weekly index of "all commodities" which stood at 64.8 (1926-100%) on August 6, an increase of .2 from the previous week. Of the 10 group indexes, from which the general index is computed, seven showed increases (foods, hides and leather products, textile products, fuel and lighting, metals and metal products, building materials, and chemicals and drugs), while only two (farm products and house-furnishing goods) declined.

INVESTMENTS: The bull market has many buffaloed, but the lambs were back in goodly number, it seems, despite little real basis for the rise in stocks in early August. Lausanne and Ottawa developments may have been partly influential, others being a cessation of gold exports, adjournment of Congress, steadiness in commodity prices, the pumping of credit into trade by the Federal Reserve System and the Reconstruction Finance Corporation.

STEEL PRODUCTION: Steel ingot production in the United States reached another new low for the depression and for many years in July, output of all companies for the month being but 792,533 tons, against 897,275 tons in June and 1,887,580 tons in July of last year, the American Iron and Steel Institute reports. October is expected to see a rise from the 15% production level, according to industry leaders.

The depression was tackled at two of the opening round tables at the Institute of Politics at Williamstown, Mass., when Professor T. E. Gregory, Cassel Professor of Banking at the University of London and author of the recent "The Gold Standard and Its Future," began his survey of the "present position of the credit problem" by warning against the assumption that the present depression differed in origin from preceding ones, says *The New York Herald Tribune*. Whatever its differences in degree might be, it seemed fairly certain that it originated in exactly the same way as previous crises.

Professor Gregory could not believe that the severity of the depression had been due to technological improvements, for there had always been such improvements, nor that the world was witnessing a "breakdown of capitalism." Everybody kept parroting that phrase without defining what they meant by it, and even if we were witnessing such a breakdown, that would not explain its cause. As a matter of fact, the comparative stability of the system even in the face of a catastrophic fall of prices from 30 to 50 per cent, seemed to argue an endurance that would scarcely have been thought possible a few years ago.

If capitalism really were breaking down, Professor Gregory said, there were only two possible explanations. One was the Marxian postulate that the accumulation of surplus profits in comparatively few hands would inevitably bring about revolution, and as for this, certainly it was true that the prophecies of Marx seemed nearer to realization than at any time since he made them. The other was that there were "certain special and unforeseeable forces operating at the present time, which, if left uncorrected, might lead to a breakdown; whatever one understood by that phrase."

This depression differed from others, first in its persistence and depth, see-

thermometer:

financial trends and indications

ing that prices had fallen in two years as much as they had fallen in the twenty years between 1875 and 1896, and second, in the degree to which the fall of prices had affected the stability of banking surplus. In England nobody since 1866 had worried about the stability of their banking system, Professor Gregory said. What we had been witnessing during the past year was really an "international run of bankers on bankers."

One really could not say that the framework of capitalism had been left unaffected.

Some of the special causes operating to increase the present depression were, first, that the "world had been subject throughout the last three or four years to a quite unusual degree of political interference with the working of the economic machine. The effect of reparation crises and analogous incidents was thoroughly to upset the public mind and to lead directly to hoarding. Second, both before and after the boom, banking policy differed markedly from orthodox banking as understood in previous crises.

"During the boom what was going on was virtually inflation under the guise of keeping prices stable. At the same time the significance of the new methods of financing, by which the Stock Exchange was the real center of the financial machine, was not clearly grasped by anybody, and since the break in 1929, the reluctance of the public to invest, which is a psychological fact of the greatest significance in explaining the general trend of events, was attempted to be overcome by the use of short term money as between banks, which in itself really contributed to weaken the banking system by introducing a great mass of frozen credit."

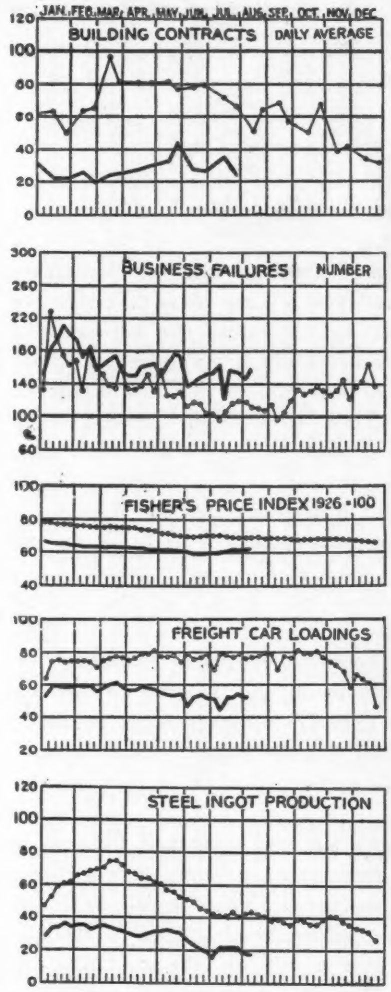
"At the same time," said Professor Gregory, "throughout the present depression there has been an exaggerated worship of stability both by governments and peoples. The impossibility of keeping particular price series steady, farm products, for instance, at a time of general price decline, has never been properly appreciated. At the same time there have been structural changes in farming methods and also population declines, which coincided in point of time with cyclical factors. The reason why, apart from anything else, it is difficult to climb out of the present depression is simply that the productive mechanism has to adjust itself, not only to cyclical changes, but to secular changes of an unusual kind.

"The capitalistic system in the nineteenth century thought of its problems primarily in terms of quantity. The shift in world population means that we shall have to think of our problems in the future in terms of quality rather than in terms of quantity. Unforfortunately, the mentality generated by the previous boom stressed quantitative rather than qualitative ideas. It is impossible to suppose that we can really climb out of the depression merely by trying to produce on as large a scale as possible the kinds of things which happen to have been in great demand at the time that the depression came. No thing is more certain than that in every period of upswing some things are produced on a scale which is exaggerated, and the problem confronting the bankers and business men at the present time is to guess in what particular direction demand will move as confidence returns."

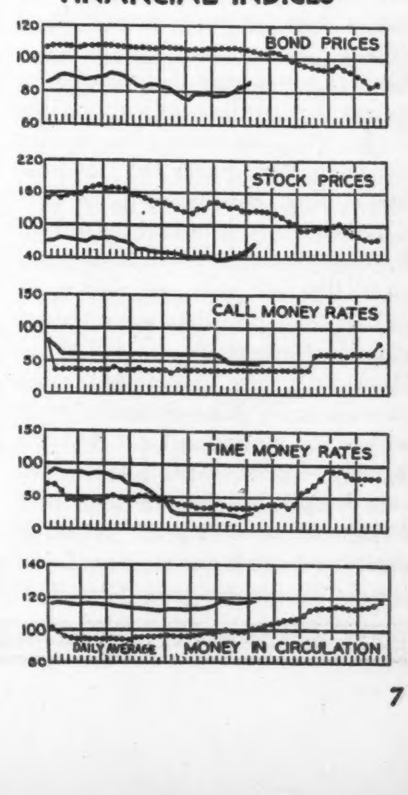
During the course of his talk Professor Gregory remarked that from London, about the first of last June, it looked "as if the United States itself were within an ace of going off the gold standard."

With the exception of Fisher's Index, U. S. Dept. of Commerce chart (right) have base 1923-25 = 100.

BUSINESS INDICES



FINANCIAL INDICES



Col. JAMES L. WALSH, Executive Vice President, The Guardian Union Detroit Group, Detroit, analyzes recent banking legislation by Congress and puts

The Glass bank bill

In discussing banking legislation today it is very important that we define accurately the various bills and acts which are under discussion.

It is unfortunate that the names of individuals have been coupled with three different acts in a somewhat confused manner. The original Glass-Steagall Bill which was put through as an emergency measure early in the recent session of Congress covered an extension of the powers of the Federal Reserve System in the issuance of Federal Reserve currency, and provided for the borrowing by member banks on other than U. S. Government bonds or on their eligible paper. That is now the Glass-Steagall Act, a law of the land.

There was also a Steagall Bill. It is very important to keep these distinctions in mind. The Steagall Bill, not to be confused with the Glass-Steagall Act, was a bill for the guarantee of bank deposits, a matter of great importance, a matter of considerable difficulty to foresee the end of, and a matter right now, perhaps, impossible of execution.

There is also a good bill under consideration that has been called the Glass Bill. It was introduced by Senator Carter Glass, early in the last Congress. It has a slight bearing upon, or perhaps I should say it may be confused with, the guarantee of bank deposits through the fact that one section of the Glass Bill provides for a Federal Liquidating Corporation.

There isn't any important reason for discussing the Glass-Steagall Act at present—it is already a law. I doubt if there is very much point to discussing the Steagall Bill, because there isn't the slightest possibility of it being enacted, but I think there is a good deal of benefit in discussing the Glass Bill.

Sen. Carter Glass, legislative father of the Federal Reserve Act, sponsor of the new banking bill bearing his name.

Senator Glass, a few years ago, went on record as saying that, if it had not been for the active assistance, cooperation and intelligent help of the National Association of Credit Men, there would be no such thing as the present Federal Reserve System. Without the Association's help, I, too, feel that the present Federal Reserve Act would never have been put on the statute books by Congress.

Before we launch into the discussion of the bank legislation bill, I would like to say that every banker and every person who deals with a bank is really in the Association's debt for the assistance rendered in the enactment of the original Federal Reserve legislation. The Association shows no desire to dodge its responsibilities in discussing and arriving at an opinion upon pending banking legislation which is designed primarily not for the protection of banks alone, but for the protection of the individuals and corporations who deal with banks, particularly the depositors. All of us are not bankers, but most of us are depositors, and that is why we all have an interest in the Glass Banking Bill. While it is called the Glass Banking Act of 1932, it might better be called a Bill for the Better Protection of Depositors.

It is too bad that there is such a pressure upon Congress by selfish groups seeking things for their own special advantage. I must say there has been a good deal of pressure from certain groups in regard to the Glass Banking Bill, but Senator Glass has been open-minded and willing to sit down and listen to the bankers' point of view or the business man's point of view. He has modified the Bill considerably since it was originally introduced. I think he has improved it.

I think if you seek a distinction between the Federal Reserve Act and what Senator Glass now proposes, you would see that the original Federal Reserve Act endeavored to encourage sound banking and his present bill endeavors to enforce it.

The basic purposes of the Glass Bill come under seven general headings:

1. Control by the Federal Reserve System of the use of Federal Reserve funds with respect to speculation in securities.
2. The intensification of control of the Federal Reserve Board over Federal Reserve operations.
3. The protection of commercial banks from the undue influence of corporations engaged in buying and selling securities.
4. Recognition, legalization and supervision of group banking.
5. A further extension of branch banking by national banks.
6. A general tightening of bank supervision by the Federal authorities.
7. The creation of a Federal Liquidat-

under the glass

ing Corporation to aid depositors in closed banks.

Under the first heading, I think he is entirely right. When we set up the Federal Reserve System it was intended to provide for industry, trade and agriculture. Nowhere in it were its rediscount facilities intended to be made available to those who merely purchase securities expecting to hold them for a rising market, but rather was it intended that its facilities should be used to assist in the financing of self-liquidating operations arising from transactions in industry, in trades or agriculture.

He provides in his present bill that if a bank, which is a Federal Reserve member, is making undue use of Federal Reserve funds, its further use of the Federal Reserve Bank may be suspended. As he says, a bank can lose its own capital if it wants to, its surplus and undivided profits, and may possibly lose some of its depositors' money, but it shall not use and lose the funds of the Federal Reserve System. He prevents that by suspending the use of facilities of the Federal Reserve System for a period until the member bank borrowing at the Federal Reserve Bank gets its affairs in shape.

The second provision rather intensifies the control of the Federal Reserve Board over operations of the various Federal Reserve Banks in open market operations, and also in negotiations and financial transactions with foreign governments. That isn't particularly important to us. It is merely a re-emphasis of the provisions already in the law.

One of the provisions concerning which there is a great deal of discussion and still a great difference of opinion is the provision which provides for the divorce of security affiliates from commercial banks. I think the experience of the last three or four years demonstrates that security affiliates which engage in selling bonds, and in some cases selling stock, to customers of the bank, or otherwise, is perhaps an unwise connection. It is probably unwise for a bank to be so closely connected with an organization which merchandises securities. It may create dissatisfaction or resentment on the part of the purchasers of those securities, arising perhaps under circumstances beyond the control of anyone. Originally it was intended to divorce these security affiliates absolutely from the commercial bank. Later, it was postponed for three years and later for five years. In other words, they were given five years to clear up that relationship.

An interesting question came up on that. I am in favor of divorce of security affiliates from commercial banks. But we looked into the matter. The security affiliates of the banks handled about 83% of the long term financing during 1931, taking that as a typical year, and if you divorce security affiliates out of business, who is going to handle that financing?

We told Mr. Mills, Secretary of the Treasury, that he was going to be the biggest borrower—"you have some refinancing ahead of you—who is going to do all this selling for you? If you wipe out these security affiliates with some measure of stability, some measure of management, and some measure of responsibility, aren't you going to turn this business over to other organizations, to fly-by-night concerns of even less responsibility, and have you benefited the public by any such move?"

In addition to government straight financing, we have a Reconstruction Finance Corporation that has made loans to railroads, banks, insurance companies. The only way they are going to get out of those loans is to have some long term financing done. Who is going to do that?

It eventually boils down to the fact that perhaps we had better not kick the Model T in the shins until we get a Model V 8 or something else in shape to handle the job ahead. We now have, in these security affiliates, a mechanism for distributing securities, government, municipal, corporation and railroad. Until we can devise some better means we had better maintain what we have—*under proper regulation* with examination by Federal Bank Examiners and reports as to condition of these affiliates.

Then if there is anything apparently out of line we can take the same action in regard to security affiliates as we can against the banks, themselves. But in the meantime, let's allow them to continue under, as we say, examination, report and supervision.

No provision of the bill recognizes and legalizes group banking. It was recognized that a great deal had been done, particularly in the northwest section of the country, where without the establishment of the recent banking group their condition would have been very much worse than it is today. The group banks were, as I say, legalized and arrangements made for the examination of group holding companies, report as to their condition, which, after all, was originally recommended by good holding companies, and also provided in case of group holding companies which had no double liability provision in their stock for a liquid *reserve* which must be accumulated out of earnings, and invested in assets other than bank stocks to a degree which would permit an immediate taking up of (*Cont. on p. 27*)

Inventory

Credit executives must know facts. Business audits can present facts in place of the mathematical conclusions presented by financial audits. . . . "inventory control is the serum for injection into accountancy to produce facts of value to credit men and bankers."

by FRANK BROAKER, Certified Public Accountant

Capital may or may not be impaired at the end of a business period. Have profits and losses for the period been correctly certified? No! Accountancy, based upon reason and common sense rather than mathematics, is constructive and instructive and has and will produce public and private *business auditors.*

The proverb of the credit man is: "He who does not choose to account for his goods is reckless with the money and credit invested in them."

To perfect in practice those principles, will the credit man and banker advocate the addition of the following questions to their credit questionnaire? "Is your stock of goods and other general merchandise intended for sale, safeguarded by accurate inventory control that co-ordinates with and confirms your financial records at cost?—(Yes or no.) "Has a *business* or financial audit been made?-(State which.)

The insertion of these two major questions in all credit questionnaires will retard fraud, be of benefit to the business man, improve the confidence of the trade creditor and banker and guide the judgment of the credit man.

Will this necessary information be harmful or beneficial to the credit man, banker, and all business in general? Are there many concerns or financial auditors even though the accounts have been financially audited, who will answer these questions—"yes"?

A financial statement after audit and certification, by itself has little value. It states what one has *now which* is easily arrived at, but not what one may *not have* as the result of continuing business. When the most important item, inventory, is qualified *"as taken, stated and valued"*, it is a public notice to the investor, trade creditor, banker and the business itself, that the cost of goods sold and the gross trading profit has been arrived at by a mechanical deduction of the residuary inventory as taken from the cost of goods bought, which is a convenient but sometimes dishonest method of computation. It protects the auditor's certification—it may avoid income taxes, and sometimes deceives the creditor and banker as to true business conditions; for if the inventory is *decreased* by valuation, it decreases the assets and profits and when *increased* by valuation, it conventiently increases the assets and profits.

When a financial auditor presents figures arrived at by such computation, he admits not knowing and cannot state the cost of goods sold nor the gross trading profit from the sale of those goods, which is what the business man should know as a guide for the continuation of business. The auditor's excuse may be that it would cost the client more for a *business audit,* without regard for the trade creditor or banker, and that a financial audit is cheaper. He disregards his duty to the public. Inventory is the base for all business disaster and should be under control. It required many years for the fire insurance companies to realize the protection afforded by the sprinkler system in case of fire.

A system of inventory control that will co-ordinate with and confirm the financial records at cost, can be easily installed and can be maintained at less expense than by present methods, and will require only interchangeable *ordinary* clerical service. If this is done, a *business audit* can be made that will present facts in place of mathematical conclusions which now mislead business, its creditors and bankers. A losing business should not be allowed to continue obtaining credit in money and goods.

The subject "Inventory Control" is the most important in the realm of accountancy, and this article is intended as a public service to aid success in business and minimize business failures.

Causes

The results of my analytic research will be pointedly stated so that they may be reasoned, debated privately, or at conventions.

1. The subject of inventory control has been neglected and will be dealt with upon broad principles of accountancy, which are *"reason and common sense"*. The figures will be left to your imagination.

2. *That,* there has been a disregard of two important cardinal principles in constructive accountancy. *"One must not omit the control of capital invested in goods received at cost, nor omit the control of delivery, sale or transfer of them at both cost and sale price"*.

3. *That,* sales represent business done, whereas goods bought constitutes capital invested with which to do business.

4. *That,* inventories taken at the beginning and end of a period repre-

control

sent capital investment, and the intermediate transactions should be accurately accounted and are not to be considered in whole or part as the cost of goods sold as stated in present accountings.

5. *That,* as a result, correct gross trading profit for the period cannot be stated.

6. *That,* there should not be added to, as cost of goods sold, the cost of missing goods and the variable differentiation between cost and market worth, be the latter lower or higher.

7. *That,* the accumulation of unsold and unsalable goods at cost or value should not be amortized in part or whole, by *its* addition to the cost of other goods sold.

8. *That,* the inventory at the end of period is not relevant to the *cost* of the other articles sold.

9. *That,* a business does not know from present day methods of bookkeeping and accounting neither the cost of nor the gross trading profit on goods actually sold.

10. *That,* a fire insurance company has no recorded means to prove or disprove a claim for fire loss, nor has the insurer the means to prove a resisted claim unless supported by *inventory control.*

11. *That,* a financial audit wherein the before-mentioned two cardinal principles *have been* violated has not sufficient value to warrant credit.

12. *That,* a *business audit* wherein those cardinal principles *have been* observed, co-ordinates with and confirms the financial audit and eliminates the present audit *excuse* qualification *"as taken, stated and valued, etc."*

13. *That,* perpetual inventories, retail sales, pre-determined cost and many other methods have resulted in useless expense that have only produced unwarranted discrepancies even after skillful manipulation of figures.

14. *That,* when *goods* are bought with *cash* as its equivalent, representing an investment, is it reasonable that by deducting the residuary inventory investment at value that the difference represents what has been parted with? How parted with? It represents the cost of goods actually sold plus shortage, breakage, and differentiation between value and cost of unsold goods. When actual cost has *added* to it a capital loss invested in other goods, common sense rebels.

15. *That, excuses* have been and are now being offered by those unwilling or incompetent to reason between right and wrong, but those who are competent and willing, reason that cash, credit and labor, combined with the materials, produce the articles, which, when sold, will return the investment with hoped for profit as the result of effort. Such investment is deserving of correct inventory control, otherwise the merchant may lose his capital, the creditor his investment in goods; the banker, his loan of money for purchase of goods or labor; and *all of them,* without knowing until too late, reap a loss instead of a profit as the *result* of their joint efforts.

Remedies

1. *That,* present methods of accounting for goods should be corrected. The cost of maintenance of inventory control without discrepancy to be less expensive than at present. It will only require interchangeable *ordinary* clerical and or machine service. Until then, mathematical mis-statements instead of a presentation of correct facts, will continue.

2. *That,* the cost of goods sold and applicable profit or loss should be a fact.

3. *That,* capital loss applicable to unsold goods on hand or missing occasioned by shortage, breakage or the shrinkage value between cost and worth should be stated independent of cost calculations on goods sold.

4. *That,* a method of inventory control shall comprehend the accounting of any specific goods or all goods dealt in and sold, *and independent of stock taking,* there must be stated the cost, proceeds and gross trading profit.

5. *That,* unsalable goods when stated and accounted as such from the records, should be removed for replacement of new stock display. The unsalable goods should not accumulate, as they require treatment before they become *dead capital.* Shall they be sold to a jobber at a sacrifice that he may compete and profit thereby, or shall they be offered to their own customers at a bargain price and thus retain *their* trade with possible opportunity of selling other goods?

6. *That,* trade discounts on purchases are not an extraneous profit but a reduced price concession if goods are paid for promptly when bill is due. Actual cost cannot be inflated by inclusion of reduced price concession. The seller *deducts* it from the sale price—the buyer *deducts* it from the cost price.

Commercial terms and usage are of interest. The *price* or *charge* is what is asked for a thing. The *cost* or *expense,* what is paid for it. The *worth* what it will fetch. The *value* what it ought to fetch. The *price* of a thing often exceeds its *worth.* The *cost* may exceed its value.

7. *That,* in book-keeping, at the end of a period, all accounts representing cost, sales, selling and distribution expenses, should, in the ledger, be transferred to "Trading Account," and the balance of that account, either profit or loss, be transferred to the Profit and Loss Account. Cost, sales and all expenditures incident thereto are neither profits nor losses and are not applicable as such in the Profit and Loss Account.

8. *That,* the same principles of Accountancy apply alike to departmental and chain stores and all wholesale and retail business, for which standardized forms can be made available.

Cure

The future *business auditor,* like the skilled surgeon, can remove the discrepancy cause, and the financial auditor, like the experienced physician, will administer corrective treatment. Inventory Control is the serum for injection into Accountancy which will produce facts that will be of value in guiding the decision of the credit man and banker.

The inventory control and financial department should be separately con-

ducted, but should co-ordinate with and confirm the records of each with the other without discrepancy. The former accounts for goods in and out at cost, and the latter accounts for the monies or credit given for them.

Forms 1 to 7 for department or chain store business. Forms 5, 6 and 7 are for any other wholesale or retail business. Forms 1 and 2, inward and outward reversionary journals are the connecting link between the inventory control and financial department for recording at *cost*, in and out, all transactions relating to receipt of goods and their transfer:—from creditor direct to departments or warehouse—out of warehouse to departments—returns to warehouse from departments—out of departments to another department—transfer of goods or supplies from either warehouse or department as an expense for use in any department or warehouse, etc.

Form 7 is a distributive coupon daily sales record which assorts each unit sale and quantity under respective stock number. It is the final connecting link at both *cost* and *sale* price between the inventory control and the financial department.

When goods are active by sale, it pays to account for them; if dormant, they rest, but should still be accounted.

Sheets have been arranged for loose leaf ledger binding.

FORM 1	*Inward Reversionary Journal*, in place of purchase journal.
FORM 2	*Outward Reversionary Journal*, in place of return purchase and allowance journal.
FORM 3	*Warehouse Stock Record*, to replace present stock record.
FORM 4	*Warehouse Stock Summary*, to replace inventory sheets.
FORM 5	*Department Stock Record*, to replace stock record.
FORM 6	*Consolidated Department Stock Summary*, to replace present tabulation.
FORM 7	*Sales Ticket, Coupon Distribution*, to replace present sales record.

FORM 1—There are two divisions, charge and credit. Articles are respectively recorded direct from invoice or voucher, either on warehouse Form 3 or on Department Form 5 together with any charges for freight and cartage inward. The particulars and amount only are entered in the journal as a *charge* to respective warehouse or general store stock control account. *Credit* is given to creditors for goods bought and to financial department for freight and cartage inward expenditures, etc.

FORM 2—There are two divisions, charge and credit. Articles are respectively recorded direct from requisition or debit voucher either on warehouse Form 3 or on Department Form 5. Only the particulars and amounts are entered in the journal in respective columns. *Credit* is given for withdrawals from either warehouse or general store stock control account—re-transfers from each of them to either warehouse or general store stock account—returns to creditors—and goods or supplies intended for department or business expense use. *Charge* is made for goods re-transferred to either warehouse, goods returned to or allowances by creditors and goods or supplies requisitioned from either warehouse or department that are to be used as an expense of any department or for other business purposes, and they are charged to respective general ledger accounts.

F. B., C. P. A.

The first Certified Public Accountant in the United States, through whose efforts in 1896 Accountancy was legally recognized in this country as a profession, Frank Broaker devised subjects and procedure for admission to the C. P. A. examinations now uniformly adopted by all States, and prepared the questions on all subjects for the first and second New York State C. P. A. examinations as secretary of the first New York State Board of C. P. A. Examiners.

FORM 3—There are three divisions; *Inward—Outward—Current Requisitions and Transfers*. Each kind of goods has its unit record, and the goods may be fluid or solid. On the reverse side of this form are memoranda rulings and headings for assortment of style, color and size of the article. *Inward* records, receiving date—from creditor or transfer—quantity—unit and cost amount. *Outward* records date—returns to or allowances by creditors—total of month's requisitions in quantity and cost—transfers—breakage—shortage—value shrinkage—all based upon cost—and goods on hand at worth and cost. *Requisitions and Transfers*—a daily record with date—particulars—quantity—and unit of and cost amount. The total quantity and cost amount is, at the end of the month, tansferred to Division 2, *Outward*.

FORM 4—There are three divisions. *Inward—Outward—Residuary Inventory*. At the end of the month, the total transactions of each unit kind of goods is automatically transferred from Form 3, which is analytic and distributive. *Inward*—At the end of month for each unit kind of article—stock number—date acquired—name of article on hand at beginning of period—quantity-unit and total cost amount—purchases—returns to and allowances by creditors—net quantity and amount to be accounted,—*all at cost*. *Outward*—quantity and total cost amount of net transfers of stock deliveries to departments—or for alterations or for other specific departmental maintenance and expense. *Reconciled Residuary Inventory*—quantity—unit and total worth or cost amount. The monthly totals of this summary co-ordinate with Forms 1 and 2 and also confirm in amount the general ledger control account of each warehouse and the general store stock account.

FORM 5—There are three divisions for record of each kind of article. On the reverse side of each sheet, there will be ruling and headings, same as Form 3, for assortment of style, colors and sizes of these specific articles. *Inward* at cost,—records date and as received from creditor or by transfer—quantity unit and total cost amounts. *Outward* at cost,—records date of return to or allowance by creditor—transfer to another department or returned to warehouse—breakage—shortage—or alterations. The net sales at the end of the month are then transferred at cost in total quantity and amount from division 3. *Sales*—at sales price—records in totals of units and amounts for each day of each specific article as sold or returned for cash and/or charge. The net total of units sold are transferred at the end of the month to Division 2 and calculated at cost. All other reported department deliveries, *not sales*, in total quantities only, are also transferred to Division 2 and calculated at cost. From Form 5 is obtained the history of each article dealt in, its salability, cost, proceeds, profit or loss.

FORM 6—There are four divisions. *Inward—Outward—Transfers—Residuary Inventory*. Each kind of goods has its analytic (*Continued on page 35*)

Peg-boards peg costs

by A. L. BLACKSTONE
Accounting Consultant

To cope with the rapidly shifting markets, timely accurate statistical information on sales, costs, and production becomes an increasingly important factor in sound business management.

There are many methods and procedures by which this information may be secured. However, in any given case, there is one method which is the most efficient in respect to speed, accuracy, and cost. It can be determined only after a thorough study is made of the job and its related procedures. This study should be made by men who are thoroughly familiar with the tools of their trade—who are willing to abide by the results of measurement, regardless of whether the outcome agrees with preconceived opinions.

One method, using a comparatively new tool, the Peg-board, is used effectively to lower costs in distribution figure work. The simplicity of the Peg-board is shown by the accompanying illustration. When strips of paper containing statistical information are shingled or placed on the row of metal pegs across the top, it becomes, in effect, a flexible spread sheet. The T square aids the operator in adding across for totals. Substantial economies are effected through the use of the Peg-board in that all unnecessary posting of figures is eliminated through the designing of forms so that figures, taken from the originating point or source, are used throughout the entire accounting procedure.

The use of the Peg-board is almost unlimited—oil companies are using it in handling service and bulk station reports; bakeries and dairies in reporting and analyzing route sales; public utilities for store accounts and expense distribution; chain stores of all kinds for recording and analyzing sales statistics; and even the Italian Government used the Peg-board in taking its recent census!

One interesting comment comes from the White Castle System, at Wichita, Kansas: "Using the Peg-board method, we were able to announce just four hours after receiving our last daily report that 23,313,842 Hamburger sandwiches had been sold in 1931. By the old method of computing it would have required thirty days to have announced this figure."

The secretary of a rubber manufacturing company writes, "We have now had the distribution Peg-board system in use for some months classifying sales as to brands, salesmen, and commodities. As a result we are not only getting the reports out much earlier, but are doing so at an annual saving of $5,000 over the old system."

Here is an illustration showing how the Peg-board functions on a simple sales analysis job. An office specialty manufacturer selling 15 products direct through 20 salesmen wanted to know the sales volume and cost of sales for each salesman by commodities. The various steps taken to arrive at this information are briefly outlined.

When the invoices are made out by the billing department, an extra carbon copy is run off for use in the sales analysis. At the end of each month the accumulated invoices are sorted to salesmen and totaled for a quick report to the sales manager. This figure is also used as a control in the sales analysis .

It is next necessary to determine the commodities sold by each salesman. The code number of each salesman is written at the top of a small strip punched with two holes, as shown in the illustration. Numbers designating 15 commodities run down the center of the strip dividing it into two columns—one for sales; the other for cost of sales.

The unit cost for each of the 15 commodities in the line is determined by the cost department. Before the invoices are sent to the sales analysis department the billing (*Cont. on page* 38)

A close-up of one of the forms on the Peg-board is shown on page 38.

Appreciate appreciation!

To the credit jury goes the case of this factor, appreciation of values, which is a violation of the cost less depreciation rule but "that rule needs occasional violations although generally applicable."

Second in the series by MYRON M. STRAIN, Certified Public Accountant.

Last month we commenced a psychoanalytical treatment of some of the phobias and obsessions which befog the judgment and paralyze the analytical powers of many credit men in dealing with financial statements, with a discussion of goodwill. Far from being a sinister harbinger of failure or crime, we found this much condemned villain to be a mere clown, and the goodwill items encountered in practice to be usually only awkwardness in the design of capital structures.

This month we turn to another common object of indignation on the part of the readers of balance sheets. This is the writing up of assets—the increase of valuation assigned to property by its owners without that increase being "realized". This process is commonly known as "appreciation", and it is regarded with great suspicion by many text-book writers and, so far as my observation goes, by most credit men.

Now any discussion of appreciation should commence with the warning that it is not, in practice, a wholly guileless and innocent device. Unfortunately there are cases in the record in which operating losses and deficits have been concealed by it, and in which subsequent events have not supported the value increases which it purported to disclose. It is subject to two possible irregularities—error in amount and impropriety of treatment. In this respect, however, it merely shares the nature of other financial reporting devices, which, alas, are all subject to impropriety and error. When it is frankly labelled in a balance sheet it is usually harmless, and it is often mildly beneficial to the analyst. But it is this overt labeling, unfortunately, that usually draws down his indignation.

This is plainly an irrational and unreasoned reaction, but a specious explanation, derived from what our psychologists call "rationalization", is often adduced to account for it. This explanation is as simple as it is fallacious, and it runs as follows: "Fixed assets should be valued at cost less depreciation." It is obvious that this is not an explanation. It is a formula, and all formulas have to rest on some sort of reasoned basis if they are to be of any value. Let us see the basis for this one.

Cost, as an independent concept of value, clearly has no significance to anyone except in a historical sense. The important value fact about any given property is not the historical record of the cash invested in it, but the future cash that can be realized from it. Now it is necessary at this point to qualify very emphatically the interpretation to be placed upon that word "realize". The accountant is a realistic chap, and while he is interested in reporting the probable future realization of the asset, he wants to report it in terms of the manner in which it is actually going to be realized and that manner, in the case of fixed properties of going enterprises, is not by the sale of the property or by any other irrelevant method of disposal which is not actually going to take place, but by being transformed, through use, into units of the product or services of the owners and thus sold for cash. Every piece of the fixed equipment and plant of a going concern is, in this way, engaged in a slow process of conversion into cash through use, and the essential valuation problem connected with it is not, what did it cost?, but what is the present worth of the cash into which it will eventually be converted? The former consideration, in itself, is merely interesting as history. The latter is the vital essence of the value.

From a practical engineering and economic standpoint, however, this realization value cannot ever be directly and assuredly ascertained. No engineer, inspecting a product, can estimate precisely the proportionate part of its totality that has been contributed by any one machine process, nor by the use of the factory building in which the machine is located. Nor can any economist, looking ahead over the whole period of the machine's or building's contributions to the product, prophesy upon what price levels that product will be marketed, so that its present realizable cash value could not be determined even if the engineer's task were feasible. The only directly estimatible factor with respect to the machine's contribution to product, then, through which it is being slowly converted into cash, is the period of time required for the conversion—the estimated life. For the present worth of the future realization of the assets through use and conversion into current services, some other, indirectly estimated opinion of value is necessary. The opinion should be, obviously, that of a competent person familiar with the circumstances, and it should be backed by some tangible authority.

Cost is simply the kind of opinion that best satisfies these requirements. It is the estimate of the present worth of the future realizable services of an asset made by the owners of the enterprise which buys it, who presumably make it in the light of a full knowledge of the circumstances and the uses to which the asset will be put, and who back their opinion of value by their own hard cash. For these reasons cost, aside from its historical interest, is usually accepted as the best opinion available as to the present worth of the future cash to be realized by the use of fixed assets, which as we have already seen, is our essential concern with value. And, as time goes on after the acquisition of the asset, adjustments are made in the total valuation to eliminate the proportion of the total realization value which has been already converted. This adjustment is known as depreciation, the current rec-

ord of converted portions of the total value of plant assets.

But there is a wide difference between what is "usually the best opinion available" and an infallible revaluation or a fixed rule of The Law and The Prophets. The cost less depreciation valuation basis is clearly the former and not the latter. It is a form of compromise with an impossible valuation ideal, and it is neither immutable nor sacrosanct. Far from its being immoral to apply any other method of valuation, it is in many cases advisable and proper for certain types of financial statements. Among these types credit statements probably belong, and there are at least four cases in which valuations determined by competent and disinterested appraisal are informative and preferable to the cost less depreciation rule. These are:

1. When there has been a material and apparently permanent change since acquisition in the price level of the particular assets involved. This condition is most common and most substantial in the case of land, but it also occurs in cases of other assets whose chief materials have been the subject of marked price changes in a period of otherwise stable prices.
2. When there has been a general change since acquisition in the buying power of money. The cost of assets purchased in 1915, for instance, would be an understatement of their realizable expectancy in 1927, and the cost of assets acquired in 1927 an overstatement of their realizable expectancy in 1932. Several soundly managed enterprises have very properly made value adjustments to correct these conditions.
3. When the depreciation rate applied to assets has been shown by operating experience to have been erroneous. Depreciation is frequently found to have been provided at rates either excessive or inadequate, and appraisal is resorted to as a corrective measure. In cases of overdepreciation this procedure may sometimes result in appreciation surplus.
4. When the assets were constructed by the owning company, without the inclusion of overhead in the cost assigned thereto, or when they were purchased in an artificially depressed selling market, such as is often created by an involuntary liquidation, in which cases replacement value clearly affords a better standard of value than cost.

I have in mind too many cases in which appreciation is a necessary ingredient of any adequate exposition of financial position to hope to be able to reproduce more than a sample. Perhaps one of the best instances on my list is that of an individual who holds, through a wholly owned corporation, several parcels of urban real estate in a rapidly growing district of one of our Western cities. He acquired them a number of years ago at a low cost, while the neighborhood was in an undeveloped condition, and in 1928 he improved two of them by building, with the help of 50% bond issues, an office building and an apartment house. His cost for the two lots was $850.00. They were appraised by the underwriters of the bonds at approximately $100,000.00. Here is his balance sheet on a "cost" basis:

ASSETS	
Current assets	$20,000.00
Land, at cost	5,000.00
Buildings	300,000.00
Total Assets	$325,000.00
LIABILITIES	
Current liabilities	$ 5,000.00
Bonds payable	200,000.00
Capital stock and surplus	120,000.00
Total liabilities	$325,000.00

There are several things about this showing of financial condition which will shock the analyst. For one thing, there appears to be only a trifle over $1.50 of underlying property value to support each $1.00 of bonded indebtedness, so that what is actually a fairly conservative financing gives the impression of being very seriously less so. In the next place, there is only about 58½ cents of net worth for each dollar of debt. A conscientious and determined "grader", heavily "weighting" the net-worth-to-debt ratio, might easily grade this balance sheet very low. I do not know whether it would pass, or whether it would fail. Observe how the application of appraised values brings out the facts: (*Cont. on page* 29)

Hidden values

Hope built on hope when he asked for credit but interchange revealed factors absent in the financial statement.

by F. R. WARBURTON, Credit Manager, Graybar Electric Co., Atlanta, Ga.

In this period of shifting credit responsibility, the paramount importance of paying records compiled by the Credit Interchange Bureaus cannot be ignored. Not only do these reports give an accurate picture of the current paying record of an account, but quite frequently divulge facts (not opinions) that are totally in disagreement with information obtained from other sources. A striking example of the value of Credit Interchange as a check against financial information recently came to my attention. The Credit Interchange Bureau report so completely overthrew the statement submitted that I believe the case will prove of interest as an indication of what a consistent user of the service may expect.

Our salesman brought in a nice order for refrigerators from an outlying town some sixty miles from Atlanta. He gave glowing reports of the customer's general ability and financial background. It seems this concern had the town "by the ears," figuratively speaking. The owner's father was Chairman of the Board of the local financial institution and of very outstanding means; in fact, a millionaire. The entire family were leaders socially and financially in this moderate sized city—a valuable asset for the successful merchandising of household appliances.

As is customary, the refrigerators were to be shipped 25% cash; the balance on Floor Plan covered by note and trust agreement which would be handled through a finance company. The salesman brought in the check for the 25%, with the information that the customer, "The Hope Electric Company," was preparing a financial statement for the finance company, which would be mailed in that evening.

The company's name seemed familiar, and upon referring to my credit files, we found a record of transactions for a limited amount some three years back. The company had at that time furnished a statement which indicated an over-extended condition, and they had been painfully slow in liquidating the small credit extended. We had finally placed the account on a C.O.D. basis. Our file also contained a free reciprocal Credit Interchange Report as of January, 1932, indicating a past due indebtedness amounting to some $1,500.00. So reviewing this information, I requested an up-to-date Credit Interchange Report and a new agency checking, and dismissed the matter for the moment.

The following day the promised statement did come in, but an enthusiastic salesman from "The Hope Electric Company" appeared and spent the day with our service man learning the mechanics of our refrigerators. He was quite optimistic and had already sold six prospects and taken a number of sales away from competitors.

Successive mails failed to bring in the necessary figures, so our salesman, eager to get the order on the way while things were hot, said he would return to Hopetown and urge Mr. Hope to get the statement in if it did not appear in the following morning's mail. No statement showed up, so our salesman, having business in an adjacent town, decided to push matters along.

The following day, by special delivery, we received this statement, which shows a small yet reasonably healthy condition; better than I expected.

Gentlemen: For the purpose of inducing you to extend credit to the undersigned, and to purchase from the undersigned, from time to time, notes, drafts, acceptances, conditional sales or lease contracts, chattel mortgages, or other choses in action, I present to you the following statement of my financial condition:

ASSETS	
Cash on hand and in bank	$ 714.23
Customers' notes on hand	320.53
Customers' accounts, good	580.70
Customers' notes and accounts, value doubtful	86.00
Merchandise	3,861.17
Furniture & fixtures	576.50
Machinery, tools & truck	430.00
Total assets	$6,569.13

LIABILITIES	
Notes payable to bank	$ 500.00
Notes payable, merchandise	311.02
Surplus	5,758.11
	$6,569.13

Have you any contingent liability? *No.*

Have you endorsed any paper as accommodation? *No.*

What amount of insurance is carried on merchandise? *Fully covered.*

Total amount of annual sales? $30,000.00.

Are there any legal proceedings or unsatisfied judgments standing against you? *No.*

I hereby certify that the above statement fully and truly sets forth my financial condition on 20th of April, 1932. This condition you may regard as continuing, and I agree to notify you promptly in writing of any change which may materially affect my financial responsibility as shown by this statement.

Signature: HOPE ELECTRIC COMPANY
By: EDWARD F. HOPE, *Proprietor*
John Brown, Witness.
April 20, 1932.

But, wait a minute! The January free reciprocal Credit Interchange Report showed indebtedness of approximately $1,500.00—this statement only indicates an indebtedness for accounts of $311.02! We immediately called the Atlanta Credit Interchange Bureau and found that they had discovered past

due trade indebtedness amounting to approximately $1,800.00. In addition to this, other comments brought out the fact that one subscriber was holding a $200.00 "No Good Check", and another member reported contingent liability paper amounting to $1,800.00. This did not compare very favorably with Mr. Hope's claim that he had $741.23 in the bank, nor his statement that he had no contingent liability.

Faced with these discrepancies, it was apparent that something was wrong. Considering the customer's background, we decided a personal interview would be to the advantage of all concerned. So, taking the salesman along, we made a fast trip to Hopetown, arriving just before noon.

When we reached the customer's place of business, we found the enthusiastic salesman in charge, and his enthusiasm hadn't diminished in the least. He was raring for ice boxes, and wanted to know why we hadn't brought a dozen or so with us. He told us none but ours would sell in that town. He had closed a number of prospects sight unseen, and scotched the sales of a number of competitive boxes. I noticed boxes of two competitive lines on the floor, and asked about them.

"They are going back," he said, "couldn't sell that junk." They happened to be good boxes, for I own one and know. Finally he sent a mechanic for Mr. Hope.

Through the window I was able to see Hope approaching, and had a chance to study his face while he carried on a desultory flirtation with a couple of girls before the store door. Intuitively I distrusted his face. However, I snapped out of it fast, for I realized a credit interview must be approached with an open mind. Screwing on my most engaging smile, I was introduced by our sales ambassador. Hope was pleasant indeed, but, when I suggested that we go where we could talk privately, the smile on his face froze and set in a mask-like mold.

Finally when we were more or less comfortably seated in his private office, I opened the bidding.

"Mr. Hope, I want to check this financial statement with you before sending it on to the Finance Company." His face froze harder. No response.

"Your girl prepared this statement, didn't she?"

"No, I made it up myself," Hope grunted.

"Oh," I said, "I thought maybe your bookkeeper made it up and you signed it. Are you satisfied the figures are correct before I send it to the Finance Company? The accounts payable, for instance—$311.02, aren't they rather low?"

Hope looked as if a word or an effort to speak might crack his face. However, he didn't look me in the eye, but mumbled, "They're correct. I took them off the books myself."

There was an uncomfortable pause.

"Well," I said finally, "they can hardly be correct as I have learned of one concern that you owe nearly a thousand dollars to."

"Which—which one?" he parried, with a glassy look in his eye.

"I haven't been given the creditor's name," I said, "but how about the item 'Contingent Liability'? Haven't you discounted a lot of radio paper?"

"Oh," he replied, "is that what that means? I didn't know that."

"Well, Mr. Hope," I continued, "we came down in a friendly spirit to see if we could help you work this out. We doubt that you realize the seriousness of sending a false financial statement through the mails."

Hope turned red behind the ears, and sliding off the top of the safe where he had been perched, picked up his hat and started out. Turning, as he opened the door, he said to our salesman, "Forget about that order. I'll make other arrangements." And he dashed out.

Frankly, I was too disappointed in the interview even to eat in the town, so we pushed the car back home in record time.

CREDIT INTERCHANGE BUREAUS
NATIONAL ASSOCIATION OF CREDIT MEN
Executive Offices 1 Park Ave., NEW YORK, N. Y.
Central Bureau 314 N. Sixth St., ST. LOUIS, MO.

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The accuracy of this Report is not guaranteed. Its contents are gathered in good faith from members and sent to you by this Bureau without liability for negligence, in procuring, collecting, communicating or failing to communicate the information so gathered.

REPORT ON:

HOPE ELECTRIC COMPANY — HOPETOWN, GA. — APRIL 23, 1932
Edward F. Hope, Proprietor — HOPE COUNTY

BUSINESS OR SUB. NO.	HOW LONG SOLD	DATE OF LAST SALE	HIGHEST CREDIT	AMOUNT OWING	AMOUNT PAST DUE	UNFILLED OR FIRST ORDERS	TERMS OF SALE	MANNER OF PAYMENT: DISCOUNTS	PAYS WHEN DUE	DAYS SLOW	COMM
GEORGIA 420-20											
Elec	Application for Credit										
Elec	yrs	10-31	1500	990	990		30			6 mos. - C (now. We hold $200 N.G. (	
Elec	yrs	3-32	1000	977	900		30			5 mos.	
Acpt	yrs	3-32						We hold contingent liabi paper amounting $1,800.0 Fairly satisfactory acco			
Elec	yrs	1-32	400	390	380		30			5 mos. - C (now	
Elec	yrs	4-32	12	6	5		30			60 days	
Elec	3-32	3-32	29	29			30			Not due	
Elec	yrs	4-32	15	15			30			Not due - Fi order in 3 years	
Elec	yrs	1929						Got even and quit			
Acpt	yrs	1930						Satisfactory 18 months a No recent experience			
				2407	2275						

COMPILED BU 22

"Always more hindsight than foresight by a darn sight" . . . we need both equally

Budgets

by Dr. RAYMOND B. PINCHBECK, University of Richmond.

Two years ago, October 17, 1930, the writer was privileged to read a paper before a regional meeting of the National Association of Credit Men. That paper was captioned, "The analysis of financial statements for credit purposes." The present article may be regarded as a sequel to that subject. The former was an attempt to outline the philosophy and technique of analyzing the financial statements, and related financial and operating data, of a business with a view to establishing its credit needs and strength. The present discussion is a modest attempt to outline the philosophy and method of using budgets for operating, forecasting, financing and planning business operations. The former treatment sought to analyze the past operations as a basis of credit strength while we now attempt to use this past and completed historical data as a basis of planning the future operations of the business under analysis.

Credit strength may be indicated by an analysis of the past history of a business, but the liquidation of credit operations is buried in the uncertainties and vagaries of future events. Unless these refined analyses of past operating and financial history of the business are scientifically used to plot a future plan and course for the business which is seeking credit, such analyses are little more than interesting post mortem examinations. They are still pictures of a once animated and moving past which may have relatively little relation to future events.

Countless thousands of business firms in the United States are able to show eminently creditable financial statements and operating experience prior to that fateful October in 1929. Yet few indeed are those who would be willing to give any serious weight to that past experience in granting credit at this time. The three intervening years have brought very different experiences to these same firms. These three years' experience do not tell a sufficiently reliable story to picture the credit strength and needs of these firms. It is necessary to know in minute detail this past record, but it is even more essential to have a program of action of the firm for its immediate, and if possible remote future. There is an old adage to the effect that "we always have more hindsight than foresight by a darn sight." Certainly this is altogether too true in the extension of credit, particularly during such unpredictable changes as now beset the economic system.

There is an increasingly strong feeling among credit analysts and economists that well planned and executed financial and operating budgets will be regarded as an essential part of the data upon which credit strength of a business firm is based. This conviction has long prevailed among accountants, organization and management experts with reference to the scientific management of business. Trade associations who have long worked for the establishment of uniform financial and cost accounting systems are now turning their attention to the use of budgets by their members. Credit agencies are predicting that credit reports of the future will include the operating budgets of those firms rated by such agencies. Bankers are beginning to ask and even require budgets as a part of the information upon which they predicate the extension of credit to a particular firm.

Individuals are being urged by insurance companies, savings banks, and those to whom they are indebted, to plan their living expenditures and savings under a well planned budget. The long struggle of Congress, the various state, city and county governments to balance their budgets has popularized the term budget in its grimmest significance. No doubt this great movement for planned future operations is a phenomena of falling prices, profits, wages and other forms of income. Prices and all forms of income have been falling steadily since 1920 and sharply since 1929. There are many economists who point to our past history and assure us that we face another ten to fifteen years of falling or lower prices. During rising price periods it often appears unnecessary to plan the individual business in any very great detail since mere possession of goods for a time will yield increasingly higher profits as a consequence of rising prices. Wages and other incomes ultimately follow the rise in prices with the result that recipients of these forms of income spend without plan and with abandon. Even those agencies of government, business firms, and individuals who use budgets during rising prices rarely give planned economy their gravest attention.

Since the turn of the present century much has been said and written on the use of budgets in the planning and orderly operation of the functions and finances of the state, local and national governments. Prior to 1900 "pork-barrel" and "logrolling" tactics accompanied the fiscal and operating functions of virtually all units of American government. At the beginning of the century researchers, bureaus of municipal research, interested citizens, civic bodies and chambers of commerce, and economists and political scientists begun to make investigations

and credits

which were to ultimately result in revolutionary changes in the fiscal and administrative conduct of government. These studies covered such fields as governmental organization, comparative costs of government, personnel administration, budgeting and the need for city and fiscal planning. Later came scientific city planning, city zoning, and now in at least one large midwestern city comes the idea of capital planning to care for schools, streets, sewers, water systems, public buildings and other long time capital investments of the municipality.

■ Credit analysts now regard budgets as an essential part of data for credit granting because credit strength can be dissipated by the vagaries of future events.

It is interesting to note that this great movement for greater efficiency and less corruption in government followed the scientific management movement under such leaders as Frederick W. Taylor. However, the presence of grossest corruption and inefficiency in several of the larger American municipalities focussed the attention of civic leaders and experts on the problem. The movement for scientific budgeting and governmental administration first took practical form in New York City and was followed by the adoption of budgeted finances in Philadelphia, Boston, Cincinnati and scores of other large cities. Later the United States government aided the movement by publishing comparative fiscal statistics for all cities of over 30,000 population, showing the costs and functions of these governments. Beginning with California and Wisconsin in 1911 the budget idea was rapidly adopted by the state governments. In 1919 some forty-four states were using a budget, while in 1930 all the states had adopted the general idea of the executive budget instead of haphazard and unplanned governmental expenditure.

In December, 1909, President Taft asked Congress to appropriate $100,000 to be used in the investigation of "method of transacting the public business." Though a presidentially appointed commission began work in September, 1910, and the president reported the "need for a national budget" on June 27, 1912, the matter was pigeon-holed by Congress until the "budget and accounting" act of June 10, 1921, became a law. The first national budget was transmitted to Congress by President Harding on December 5, 1921, and was related to the fiscal year ending June 30, 1923. Thus the national government had operated for 134 years without a scientific system of budgeting and planned economy.

The idea of budgeting and planning in industry, that is, in a scientific and painstaking manner is a post-war development. A few very large companies had used systems of forecasting physical estimates and financial estimates prior to the depression of 1920-22. Some few of these large companies extended budgetary control to all of their business operations. However, it was the deflation following 1920 that first led a considerable number of corporations to plan their sales, production, purchases, manufacturing expenses, sales expenses, markets and territories, labor and personnel systems, cash position and balance sheet relations, and the profit and loss statements, all well in advance of actual performance.

It is thus seen that the sagacious business leadership of the nation, which is so prone to criticize governmental leadership and methods, has been among the last to adopt scientific planning and budgetary control to their own affairs.

However, the development of the idea of planning of individual plants and industries, and the use of budgetary control in business operations, has been increasingly significant during the past ten years. In 1930 the National Industrial Conference Board sought to discover the extent to which American manufacturing industries were using budgetary control and planning, the methods of planning used, and their success. Though they chose only corporations with a production, in terms of sales, of over one hundred million dollars in volume, and a credit rating of AAAA it found some 294 companies of this size. These companies represented seventy-six industrial groups with from one to nine companies in each group. Fifty-five per cent of these companies were using budgetary control in one form or another, and were attempting to plan their operations in advance.

The United States Chamber of Commerce, the American Management Association, and the International Management Institute are among the important business associations who have given serious thought to the possibilities of planning industry in terms of the individual company or business. In 1930 Mr. Howard Coonley told the United States Chamber of Commerce, in its annual meeting, that the two outstanding changes which had taken place in American industry were: (1) the change from hand-labor, and job-lot production to concentration of labor, and specialized machinery under a system of mass production, and (2) a change from making what management willed, expecting to find ready buyers, and hiring and firing of men according to whether success was attained by the above production policy, to making what can be sold, and reducing labor turnover by scientific personal and industrial relations policies executed under skilled guidance. The first of these changes had begun before the World War, while the latter has developed primarily since 1920. One of the greatest factors in the latter change is consistent of budgetary control and planning in American manufacturing industry.

So important has the need for planning in industry and commerce become that from July 10 to July 12, 1930, a Conference on Budgetary Control was held in Geneva, Switzerland, under the

auspices of the International Scientific Management Committee. Over 100 delegates from 25 countries were present and learned papers on various phases of industrial budgeting were presented. Among the resolutions adopted by the conference was the following:

"The International Conference on Budgetary Control considering the importance of budgetary control for private and public administration, recommends that the International Management Institute should cooperate with the International Committee for Scientific Management, and with the National Committees or organizations in promoting the formation of research groups which will study the application of budgetary control in individual cases."

The above conference defined budgetary control in the following manner:

"Budgetary control (in industry) is a method of rationalizing whereby estimates covering different periods of time are, by study of statistical records and analytical research of all kinds, established for all and everything affecting the life of a business concern which it is possible to express in figures.

"These established standards are constantly revised and checked for the periods determined, in light of actual achievement; with the double purpose of correcting the estimates, and of initiating the investigation and correction of causes of discrepancies."

The National Industrial Conference Board defines budgetary control as (1) "The assembling of information that may have an effect on its (the business) operations during a stated ensuing period, (2) applying the information to forecast trends and to formulate a program, and (3) using the program currently for measuring operations." Mr. M. V. Hayes in his book, "Accounting for Executive Control," defines budgetary control as "that branch of accounting which deals with the science and the art of forecasting future operations." The budgetary method has also been defined as an instrument of cooperation, coordination, and control. In short, budgetary control amounts to planning the future operations of a business concern on the basis of analyzed past results and careful research.

Successful use of budgetary control and business planning presumes the existence of certain definite factors. (1) The business organization must be properly coordinated and efficient in the performance of its functions. The firm may be organized on the basis of "line and staff", "functionalized departments", or on the "committee type." Which type of organization is chosen is of little importance so long as each step in production is functionalized and certain persons are definitely responsible for its execution, each department is properly coordinated with all related departments and the continuous processing necessary to manufacture. (2) It goes without saying that a detailed and complete financial accounting system is another fundamental essential to budgetary control. From this system of accounts detailed balance sheets and profit and loss statements should be periodically drawn, at least once each month. This is possible if accurate perpetual inventories are carefully kept. The financial accounting system should also yield certain basic and useful statistics on operations and production. Comparative balance sheets and profit and loss statements should be constantly kept before the management. If possible the statement of profit and loss should be departmentalized so as to allocate expenses as far as possible in the absence of a cost accounting system. Moreover, the departmental responsibility for output and expenses should be directly traceable to a responsible executive.

The third factor essential to successful budgetary control is a good system of cost accounts. (3) Though the needs and peculiarities of different lines of industry lead to the use of various systems of cost accounting, a good costing method is highly essential in successful industrial planning and budgetary control. If possible a system of costs widely used in the line of industry should be chosen in order to make possible comparison of cost experience with other members of the industry. Trade associations and accounting firms have done much to develop such standardized cost systems. A good cost accounting system should show the direct materials, direct labor, factory costs, and overhead or burden costs of each "job" or process. From such actual cost determination may be developed "standard costs" which are predetermined and more or less ideal cost experience set in advance of actual production. Thus cost accounts break down the expenses of the general profit and loss statement and show just what jobs or processes were responsible for the costs, and what each job or process yielded in revenue.

Standard costs are ideals by which to check actual experience even though such standard costs themselves must be subject to constant revision. In an ideal factory where all operations are standardized, piece rates and standard time for each operation established, specifications used for all parts, materials and supplies, actual costs and standard costs would approximately equal one another. Naturally then, only actual cost experience would be used in the making and execution of the budget.

It should be said here that while we appear to have assumed that the methods of budget making and control are primarily useful to the manufacturing firm this is far from being true. Few indeed are the business firms, large or small, who cannot profit greatly by the use of budgetary control and planning. Naturally the refinement of detail, method, and technique will be varied and simplified where budgetary control is applied to the smaller firm. Firms engaged in the merchandising of finished manufactured goods need not only the benefits of budgetary control, but greater use of cost accounting methods in their businesses. More will be said on this subject in the discussion of market analysis and the sales program.

A fourth essential factor in budgetary control and planning is adequate supervision. (4) Budget supervision means that some person, or persons, must be delegated as supervisor or director of planning and budgeting. This involves not only the making of the budget but also the research, analysis, revision and actual direction of the execution of the completed and revised budget. The following table shows the persons in the 93 companies studied by the National Industrial Conference Board who were responsible for budgetary control.

Titles of Executives in Charge of Budgets as Reported by 93 Companies
(National Industrial Conference Board statistics.)

Executive	*Number of companies*
President	7
Assistant to the President	2
Vice President	2
Treasurer	24
Assistant Treasurer	5
Comptroller	27
Assistant Comptroller	3
General Manager	4
Statistician	1
Auditor	2
General Auditor	1
Secretary	3
Superintendent of Plant	1
Comptroller of Budget	1
Budget Supervisor	3
Budget Director	1
Budget Control Officer	1
Manager of Control Department	1
Manager of Forecast & Analysis Dept.	1
Cost Manager	1
Factory Accountant	2
Total companies studied	93

It is thus seen that some 70 of the 93 companies center the function of planning and budgeting in the offices of the president, vice-president, treasurer, assistant treasurer, comptroller or assistant comptroller. (*Cont. on page 39*)

Surveying character

"Good merchandise, honestly sold to good risks, occasions few losses for anyone."

by C. L. PARDEE, Jr., Commercial Credit Co., Baltimore, Md.

The term "inspection report" is one which, a number of years ago, was used primarily in connection with reports obtained by insurance companies on their prospective policy holders. While this type of report covers the subjects worth and income it especially emphasizes his character and habits. Unfavorable information is given without reservation. There is no "pussy-footing" and it is not necessary to try to read between the lines.

These character reports have been used by finance companies for many years. At first reports were furnished which were written on the same forms which were in use when making reports on insurance risks, but the companies making these reports through coperation with the finance companies, as well as with other types of business which made use of their services, developed special forms of reports particularly emphasizing certain items of information required by the particular demand of the business.

While these companies are not magicians and will not attempt the impossible, the spirit of cooperation which has been shown has helped the finance business materially in the close checking of dealer risks, as well as the selection of purchaser risks, with the consequent elimination, to a large degree, of undesirable types of business. The verification in special cases of ownership of the mortgages on property, taken from the public records, and the physical check of articles financed on wholesale on the dealer's floor, are some of the things which the inspection companies are doing for financing organizations on a nation-wide basis. Speed to the extent of local reports within two or three hours is not a promised or desired service, and some of these companies have absolutely barred the use of telephones for the gathering of any information, which is one of the reasons why their reports contain so much "meat", since their inquiries are made by reporters who personally contact the sources of information and fully develop any unfavorable indications which may be disclosed. Nevertheless, in a case of special emergency it is quite possible to pick up your telephone, talk with a local office and within 24 hours or less, have a concise wire report on someone on the other side of the continent.

Their services are all of value, but the outstanding feature is the benefit to be derived from the on-the-ground report on "John Doe". This tells not only of his occupation, worth and income, but gives the credit man sufficient information for him to build a mental picture of the man, his surroundings and habits, and thereby determine the moral hazard.

From the standpoint of granting dealer credit, inspection reports are of particular value covering the moral hazard of the individuals connected with the dealer organization. They furnish the credit man with a picture of those individuals as seen by members of the community in which they reside. They help materially to bring to light any underlying personal conditions which might have a very strong bearing on the extension of credit. They have disclosed instances where dealers were keeping up their payments on normal trade accounts with reasonable promptness, but members of the dealer organization were shown to be owing small personal accounts, locally, which had run unpaid for months and were virtually impossible to collect—a set of contrary circumstances well worth careful consideration. They have uncovered existing moral hazards which were not suspected from other information received, and which, when known, were the cause of either refusing the account or setting up special safeguards in keeping with the conditions disclosed. Without these reports there would be many cases where a true and complete picture of the risk involved would be lacking.

However, these reports have much more than a negative value. They help select the exceptionally strong moral risk which might normally be considered too light financially, and because of the additional background furnished it is possible to save such accounts from the limbo of rejected business. Preventing the rejection of safe business is a major economy for it saves loss of good will, loss of sales effort, loss of time and expense in investigating the account, and last, though far from the least, it may be the means of preventing one more concern from going out of business.

In these times of stress and frequent financial difficulties when the comparative financial statements of many businesses, both large and small, show losses instead of progress, the inspection report is of unusual value, because the question every thinking credit man must ask himself is whether, in the face of the adversities already sustained and those which may come, the individuals who form the motive power for the business are the type of men who have the strength of character and determination to see it through, or are people of that weak category who may resort to either bankruptcy or some dishonest methods to salvage something for themselves personally. It takes strong character to nurse a sick business faithfully and in such a situation there are many temptations which present themselves to weak individuals.

From a retail purchaser standpoint, inspection reports are one of the most certain methods of eliminating the bootlegger, the "skip", or other undesirable moral risk. The occasional risk of this type which sometimes creeps through the gate represents but a very small proportion of volume. On the other hand such an occasional transaction can contribute largely to the loss ratio of the dealer as well as the finance company—because of excess collection costs as well as actual losses. Every time such a risk is eliminated through the use of an inspection report— *(Continued on page 38)*

Nation-wide collection and sales conditions

What they are at present

The outlook for the near future

CREDIT AND FINANCIAL MANAGEMENT offers its regular monthly survey of collections and sales conditions. It is based upon reports from large cities throughout the country that are trade centers for their surrounding areas. The reports are the results of the daily experience of the leading wholesaling and manufacturing concerns operating from these trading centers. The two questions "Are people buying?" and "Are they paying?" are perhaps the most direct and immediate reflection of daily business conditions in the country.

These reports have been tabulated so that you may see at a glance how conditions are reported in various cities in each state, also what cities report a condition of "Good, Fair or Slow." At the end of this summary you will find valuable explanatory comments that have been sent in to CREDIT AND FINANCIAL MANAGEMENT. These additional comments may be pertinent to your interpretation of collection conditions and sales conditions in the cities listed.

State	City	Collections	Sales
Ala.	Birmingham	Slow	Fair
Ariz.	Phoenix	Slow	Slow
Ark.	Ft. Smith	Fair	Slow
	Little Rock	Fair	Slow
Cal.	Los Angeles	Fair	Fair
	Oakland	Fair	Fair
	San Francisco	Fair	Fair
Colo.	Denver	Slow	Slow
	Pueblo	Fair	Fair
Conn.	Bridgeport	Fair	Fair
	Hartford	Slow	Slow
	New Haven	Fair	Slow
	Waterbury	Slow	Slow
D. C.	Washington	Slow	Fair
Fla.	Jacksonville	Slow	Slow
	Tampa	Slow	Slow
Ga.	Macon	Fair	Fair
Idaho	Boise	Good	Good
Ill.	Peoria	Slow	Slow
	Springfield	Fair	Fair
Ind.	Evansville	Fair	Slow
	Ft. Wayne	Fair	Fair
	Indianapolis	Slow	Slow
	Terre Haute	Fair	Fair
Iowa	Burlington	Slow	Slow
	Cedar Rapids	Slow	Slow
	Davenport	Slow	Slow
	Des Moines	Slow	Slow
	Ottumwa	Slow	Fair
	Sioux City	Slow	Slow
	Waterloo	Fair	Good
Kan.	Wichita	Slow	Slow
Ky.	Lexington	Slow	
	Louisville	Fair	Slow
La.	New Orleans	Fair	Slow
Md.	Baltimore	Fair	Fair
Mass.	Boston	Slow	Slow
	Springfield	Fair	Fair
	Worcester	Fair	Fair
Mich.	Detroit	Fair	Slow
	Grand Rapids	Slow	Slow
	Lansing	Slow	Slow
	Saginaw	Slow	Slow
Minn.	Duluth	Fair	Fair
	Minneapolis	Fair	Fair
	St. Paul	Fair	Fair
Mo.	Kansas City	Slow	Slow
	St. Louis	Slow	Slow
Mont.	Billings	Slow	Slow
	Great Falls	Slow	Fair
	Helena	Fair	Fair
Neb.	Omaha	Fair	Slow
N. J.	Newark	Slow	Slow
N. Y.	Albany	Fair	Fair
	Binghamton	Fair	Fair
	Buffalo	Fair	Fair
	Elmira	Fair	Fair
	Rochester	Fair	Fair
	Syracuse	Fair	Fair
	Utica	Fair	Fair
N. C.	Charlotte	Slow	Slow
No. Dak.	Fargo	Fair	Fair
Ohio	Cincinnati	Fair	Fair
	Cleveland	Slow	Slow
	Dayton	Slow	Slow
	Toledo	Slow	Slow
	Youngstown	Slow	Slow
Okla.	Oklahoma City	Slow	Slow
	Tulsa	Slow	Slow
Oregon	Portland	Fair	Fair
Pa.	Allentown	Slow	Slow
	Altoona	Slow	Slow
	Harrisburg	Fair	Fair
	Johnstown	Slow	Slow
	New Castle	Slow	Slow
	Pittsburgh	Slow	
	Wilkes-Barre	Slow	Fair
R. I.	Providence	Fair	Slow
So. Dak.	Sioux Falls	Fair	Slow
Tenn.	Chattanooga	Slow	Slow
	Memphis	Slow	Slow
Texas	Austin	Slow	Slow
	Dallas	Fair	Fair
	El Paso	Slow	Slow
	Ft. Worth	Fair	Slow
	San Antonio	Slow	Slow
	Waco	Slow	Slow

State	City	Collections	Sales	State	City	Collections	Sales
Utah	Salt Lake City	Slow	Fair	W. Va.	Bluefield	Slow	Slow
Va.	Bristol	Fair	Fair		Charleston	Slow	Slow
	Norfolk	Slow	Slow		Clarksburg	Slow	Fair
	Richmond	Fair	Fair		Lynchburg	Slow	Slow
	Roanoke	Slow	Fair		Parkersburg	Slow	Slow
Wash.	Bellingham	Slow	Slow	Wis.	Fond du Lac	Slow	Slow
	Seattle	Fair	Slow		Green Bay	Slow	Slow
	Spokane	Slow	Slow		Milwaukee	Slow	Slow
	Tacoma	Fair	Fair		Oshkosh	Slow	Slow
				Terr. of Hawaii	Honolulu	Slow	Slow

Comments on collections and sales conditions

ARIZONA: Phoenix reports the following: "Although sales and collections do not reflect any change, there is, without question, a better state of mind on the part of the local business men, and we hope this will soon be reflected in sales and collections."

ARKANSAS: Collections in Ft. Smith are expected to remain fair, due to the fact that wholesalers and jobbers are confining their sales to short terms and cutting out, or down, sales to merchants formerly on their books as "carry accounts." Sales are not expected to show any material gain until Fall. A reduction of 20 to 25 per cent is anticipated under that of last year. The cotton crop is yet a little uncertain. Early rains caused the boll weavel to become active, but this has been arrested by recent hot weather. Little Rock reports collections fair and sales slow, although some sections have improved somewhat.

CALIFORNIA: Collections and sales in San Francisco have picked up since last month.

CONNECTICUT: One report from Bridgeport states collections slowing up somewhat and sales for the first half of 1932 ahead of corresponding period of 1931 in value and units, although they have slowed up some in the past month. Reports from some of Waterbury manufacturers are somewhat encouraging. Orders have been received indicating an increase in working hours for possibly three or four months. More encouraging is a general feeling that basic business is on the up-turn. Retail sales must be stimulated. Sales and collections are generally slow. They feel that an improvement can only follow increased factory hours. The same is true of other towns in Western Connecticut and the Naugatuck Valley.

FLORIDA: Jacksonville informs us that Summer is usually their slow season, but this year has been the slowest they have ever had. Collections and sales are both at a stanstill.

INDIANA: Labor conditions in the coal fields of Terre Haute tend to some unrest and the manufacturers and retailers are both marking time.

IOWA: Collections are slow in Davenport. The advance in price of hogs and cattle, and the promise of fine crops, are making the farmers more cheerful.

KANSAS: Both collections and sales have fallen off in Wichita.

MASSACHUSETTS: Springfield reports a general feeling of optimism. There has been a marked improvement in collections and sales in Worcester. The attitude of manufacturers and jobbers is cheerful. One mill-textile machinery company reports a $3,000,000 initial order and other local manufacturers except conditions to improve in the Fall. The retail hardware business is good.

MICHIGAN: The people in this territory are trying to pay. Sales are slow and building is at a complete standstill. Business failures are not great in number and, an upturn of sales is expected in the Fall.

MINNESOTA: Minneapolis reports the following: "We have made inquiry of representative firms in several industries in reference to collections and sales. Replies indicate very clearly that collections have moved from slow to fair. This is remarkable, inasmuch as this is a very slow season in this section. With our questionnaire to representative business firms in this trade market we asked this ques- (*Cont. on page* 40)

Changes since last month's survey

State	City	Collections	Sales
Arkansas	Ft. Smith		Fair to Slow
	Little Rock	Slow to Fair	
California	Oakland	Slow to Fair	Slow to Fair
	San Francisco	Slow to Fair	
Connecticut	Bridgeport	Slow to Fair	Slow to Fair
D. C.	Washington	Fair to Slow	
Florida	Tampa		Fair to Slow
Idaho	Boise	Fair to Good	Fair to Good
Illinois	Peoria	Fair to Slow	
	Springfield	Slow to Fair	Slow to Fair
Indiana	Evansville	Slow to Fair	
Iowa	Cedar Rapids	Fair to Slow	Fair to Slow
	Ottumwa	Fair to Slow	
	Waterloo	Slow to Fair	Slow to Good
Kentucky	Louisville		Fair to Slow
Louisiana	New Orleans		Fair to Slow
Michigan	Grand Rapids		Fair to Slow
Minnesota	Minneapolis	Slow to Fair	Slow to Fair
	St. Paul		Slow to Fair
Montana	Billings	Fair to Slow	Fair to Slow
Nebraska	Omaha		Fair to Slow
New Jersey	Newark	Fair to Slow	Fair to Slow
New York	Albany	Slow to Fair	Slow to Fair
Ohio	Cincinnati	Slow to Fair	Slow to Fair
Pennsylvania	Allentown	Fair to Slow	Fair to Slow
Rhode Island	Providence	Slow to Fair	
South Dakota	Sioux Falls		Fair to Slow
Texas	Ft. Worth	Slow to Fair	Fair to Slow
	Waco		Fair to Slow
Utah	Salt Lake City	Fair to Slow	Slow to Fair
Virginia	Richmond	Slow to Fair	
	Roanoke	Fair to Slow	Slow to Fair
West Virginia	Charleston		Fair to Slow

Paging the new books

Reviews of the important books on business, to aid executives whose reading hours are limited.

This month's business book

THE CRISIS OF CAPITALISM IN AMERICA. By M. J. Bonn. John Day Co., N. Y. $2.50.

Bobbie Burns, the Scotch poet, longed for the gift "to see ourselves as ithers see us." We have not yet mastered that delicate art but so long as we have such penetrating and discerning analysts as this German economist, M. J. Bonn, we can get along very well, thank you, without the gift.

"The Crisis of Capitalism in America" was not written for American consumption. It was an attempt by the author to explain the America of boom years, from the war until October, 1929, to our neighbors in Europe. For this purpose he was well equipped as he had been in our midst for several years as lecturer and exchange professor—and observer. He observed everything, seemingly, that was essential to the American scene. Like the best German cameras, he caught every detail on the mental negative and when he returned to Europe and developed the negative, it became a prose positive that is so lucid, so well developed, and so inclusive of details of the scene before the camera's eye, and also the panorama, that the value and necessity of perspective is at once pleasantly apparent. Only a foreigner could see us so well.

Professor Bonn is by-lined as one of Germany's foremost economists and a member of the League of Nation's Gold Committee. To that should be added some recognition for his fluent, crystal-like prose for Mr. Bonn is more than an economist; he is, besides, a writer of ample ability. Yet not once does his writing muddle his logic, dislodge his presentation of facts and opinions, or disorganize his conclusions—and that is quite remarkable for our current crop of economists who burst into print at the slightest suggestion of an idea or variation of another's idea.

This volume is an account of the various factors and phases of our recent boom years. Everything comes under the author's scalpel. Our family life, our city development, our farm conditions, our post-war credit and financial structure, and the influence of all of these on an imitative, America-conscious, prosperity-denied Europe. Then the crisis and its significance are brought into focus, and as you travel along with the smooth stream of Bonn's prose you cannot but marvel at his erudition, his level-headedness, and his remarkable faculty for picking out the significant, sub-surface facts that affect the ways of our world.

A depression that brings such a book and such an author to the fore cannot be 100 per cent bad. We must effect, as is the custom today, a cut of at least ten per cent from that figure. This volume should be adopted as compulsory reading for every American business man solely because of his general economic illiteracy and the well-rounded analysis this book presents as a lifting of the fog from the hazy, timid economic half-truths that are still accepted so thoroughly in these United States today.

—Paul Haase.

Go-getting genius

THE SALES STRATEGY OF JOHN H. PATTERSON. By Roy W. Johnson and Russell W. Lynch. The Dartnell Corporation, Chicago and New York. $3.50.

John H. Patterson, founder and head of the National Cash Register Company from 1884 to 1922, deserves to be ranked as the Number One Salesman of American business history. He was not only a master salesman himself but he was a teacher of salesmen. In spite of the fact that Patterson was intolerant, temperamental and autocratic he was a builder of men as well as a builder of sales. Many of the outstanding sales executives and industrial leaders of the present business era received their apprenticeship and training under Patterson. C. F. Kettering, President of General Motors Research; Alvan Macauley, President of Packard Motor Car Company; T. J. Watson, President of International Business Machines and Richard H. Grant, the sales genius of General Motors, are all Patterson trained men.

This book imparts to the reader much of the information, psychology and knowledge that Patterson in his life time imparted to these great business leaders who worked under him. The object of this book has been to present in practical and comprehensive detail the theory and practice of constructive sales promotion as it was developed by Patterson and applied with spectacular success to National Cash Register. The authors rightly state that "he came very close to being an authentic genius; one of the very few that American business has produced."

The sales organization created by Patterson has never been surpassed—or even equalled. The most successful sales promotion programs of today follow the clear-cut principle elucidated by Patterson in his thirty-eight years of master salesmanship. No business man can understand sales and advertising fully and completely without reading this splendid volume. This book will pay high dividends to the man who will study it seriously. It will teach you how to sell yourself as well as sell a commercial product. It is fascinating reading because it has caught and recorded the personality and genius of "The daddy of modern sales management."

—Chester H. McCall.

Among those present:

PRINCIPLES OF MARKETING. By Harold H. Maynard, Walter C. Weidler and Theodore N. Beckman. The Ronald Press Co., N. Y. $4.50.

A revised edition of this volume in which "an attempt has been made to present a rounded-out treatment of the fundamental principles of marketing." Added material brings more emphasis on various phases of marketing, such as distribution, consumption, voluntary chains and industrial marketing. This book is timely because these are the times for all good business men to come back to fundamentals, as the reconstruction begins.

If the new Federal
TAX LAW
affects your business, see how this machine will also figure and accumulate the tax as the bills are written.

BURROUGHS TYPEWRITER BILLING MACHINE

COMPUTING

TYPING

MAKE *One* JOB OF TYPING AND COMPUTING *the* INVOICE

ELECTRICAL multiplication—and many automatic features of operation—make Burroughs Typewriter Billing Machine the fastest billing machine in use today. It is the only billing machine that multiplies directly . . . as well as the only machine that types and computes a complete invoice in one operation. All extending (by direct multiplication), discounting, totaling and other calculations are performed *as the bill is typed.*

Investigate this remarkable machine for saving time, promoting accuracy and reducing billing costs. Telephone the local Burroughs office, or write Burroughs Adding Machine Company, 6168 Second Blvd., Detroit, Mich.

Burroughs

"This month's collection letter"

Gentlemen:

We are apparently unsuccessful in securing your cooperation in connection with your past due account of $55.90. Three previous letters remain unanswered.

Our records indicate the above amount to be distinctly past due and at a point where some definite action must be taken toward settlement. A continuation of your present attitude will lead to an unfavorable reaction on our part toward further credit and also to different handling of the present account.

We do not believe we are taking an unreasonable attitude in requesting that the account either be settled or reduced within the next week or ten days. We shall, therefore, expect to hear from you favorably within that time.

This letter deserves your consideration.

Very truly yours,

SUN GLOW INDUSTRIES, INC.,

W. L. Scheifley, Collection Manager.

We present our regular "this month's collection letter". It is unique and effective and an example of good collection letter thinking.

What the country needs is more good collection letters. Their importance in helping pull business out of a depression and then keeping it out is greatly underestimated. There is no short cut to profits as certain as collection letters that do their job.

Send us your best and favorite collection letter for our "collection of collection letters" which we are gathering for readers of CREDIT and FINANCIAL MANAGEMENT.

"I am enclosing a collection letter for your consideration in connection with the monthly collection letter printed in CREDIT AND FINANCIAL MANAGEMENT", says Mr. Scheifley in submitting this spirited piece.

"I realize this letter is not of the type usually printed in your magazine as it is used only when friendly letters have failed to accomplish their objective. It is our experience recently, however, that a number of dealers are delaying payment of their account as long as possible without actually impairing their credit. No doubt this is also true in other lines of business. This letter has been very effective in bringing such accounts up to date.

"As an example of its effectiveness, a recent mailing resulted, so far, in action on over 60% of the accounts written."

There is an old line to the effect that "you can juggle figures but you can't argue with them." Most of our readers know of the necessity of writing a sharp collection letter to an impervious debtor. Often the letter seems strong but the response is weak. Mr. Scheifley's letter gets the action that is ultimate proof of any letter's true worth.

A complete series of individual numbers of the collection letters which have appeared in CREDIT AND FINANCIAL MANAGEMENT is available upon application to Miss Mary V. Larkin, Manager, Collection Letter Department, CREDIT AND FINANCIAL MANAGEMENT, One Park Avenue, New York.

The Glass bill under the glass

(*Continued from p. 9*) any responsibilities which might devolve upon the holder of stock of any one of its units.

Then there came the question of branch banking and that is one of the most controversial sections in the bill. It is too bad that discussion of those sections is confined pretty much to bankers, because I think the bank depositors, particularly the small depositors in rural communities have much more at stake than the banks.

Mr. Glass in a statement and address before the Senate on May 10, spoke as follows:

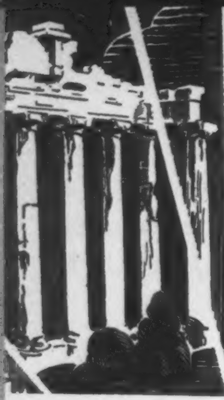
"I have been now, for nearly 32 years a member of the Banking and Currency Committees of the other branch of Congress and of the Senate. I have been an intent listener and observer to all measures of importance that have been considered; and I assert here that never in the whole period has any merchant or business man having relationship with banks ever protested against branch banking. No man who has wanted credit, no man who wanted to borrow funds with which to conduct his business has ever in that whole period raised his voice against branch banking. It has only been done by the bank which wanted a monopoly of credit in its community."

This question of branch banking gets a little foggy. We speak of branch banking as though that is a complete description, but it isn't. In discussing a matter of such importance, I think it is very necessary that we define just what it is we are talking about.

The Glass Bill, as it stands with the Vandenberg amendment, provides that a national banking association may, with the approval of the Federal Reserve Board, establish and operate new branches within the limits, of the city, town or village, or any point within the state in which said association is situated. No such association shall establish a branch outside of the city, town or village in which it is situated unless it has a paid-in and unimpaired capital stock of not less than $500,000. Except in a city, town or village where there is no national or state bank regularly transacting customary banking business, no such association shall establish a branch except by taking over an existing unit bank, or an affiliate of such association.

There has been some talk of city banks wanting to absorb small country banks, etc., I do not believe it at all. The emphasis is all the other way, if our own experience can be taken as a criterion.

I would like to quote another paragraph from Senator (*Continued on p. 34*)



Accounting forum

An open clearing-house of ideas and news for credit executives by accountants.

This question and the answers are taken from "The Journal of Accountancy". The answers come from practicing accountants and any responsibility for views expressed is disclaimed by the American Institute of Accountants. The differences of opinions in the answers indicate the personal nature of the answers.

Bad debt losses

Question: We have been requested to charge separately to surplus bad debt losses considered to be unusual losses during the present period of depression, and the clients submit that, at least in part, such unusual losses are due to inaccuracies in bad debt reserves for prior periods.

Similarly, requests have been made that we separately charge to surplus computed amounts considered to be declines in inventory values due to the market trend of the past year. The argument submitted in this instance is that the management had no control over these price declines and therefore the item is of an unusual nature and not a proper charge to operations. In particular, we have had this request in one instance wherein the computation of the decline is based on actual items included in the beginning and ending inventories at different values.

Answer No. 1:

(a) The treatment in the accounts of unusually large losses from bad debts due to the present business depression.

(b) The treatment of inventory write-downs necessitated by price declines.

The conditions described in your correspondent's letter are not peculiar to one or two companies, and we venture to say that practically all industrial companies were faced with the same problems in a greater or lesser degree at the close of the past year.

With regard to (a) it is, of course, obvious that losses from bad debts are greater in periods of depression than in periods of prosperity, and we believe it has been the experience of industrial companies generally that considerable increases have been necessary in provisions for bad debts in the past two years. While it would undoubtedly be conservative practice to establish reasonably substantial reserves in prosperous times to provide for possible future losses from bad debts, we do not think that failure to provide ample reserves in the past would warrant charging to surplus losses now incurred which conceivably might have been provided for previously. However, reserves for bad debts are largely estimates at best, and probably it will be found that the necessity for making unusually large provisions at this time is not due principally to inaccuracies in previous reserves but is a result of business conditions arising during the current year, which could not have been reasonably foreseen. It follows, therefore, that bad debt provisions should all be absorbed in the profit-and-loss account, and it has been our experience that this practice is being followed practically without exception. Such charges may, of course, properly be shown as a separate item in the profit-and-loss statement.

With regard to (b) it may be of interest to quote the following from the Institute's *Special Bulletin No.* 7 issued in December, 1920:

"It was agreed that it would be in order to show operating profits on the basis of inventories at cost (less usual provisions for obsolete stock, etc.) and the adjustment from cost to market as a special charge either against profits or surplus, provided that the procedure adopted was clearly described. In point of fact, the loss from the decline of prices is an offset to the extraordinary profits from increasing prices realized over a series of years and not an operating loss of the year, but as the extraordinary profits in the past years have been included in the ordinary profits, any statement this year either must similarly absorb the corresponding decline or show clearly that this decline has not been absorbed in the operating results."

While the present conditions in some respects are comparable to those existing in 1920, it should be borne in mind that in 1920 price declines took place over a comparatively short period; whereas in the present instance the trend of market prices has been downward over a period of some two years. There would not appear to be much point to the arguments advanced by your correspondent's client that the price decline is of an unusual nature because the management had no control over prices. Price declines and advances occur from time to time and are usually beyond the control of management, and it would be quite impracticable to attempt to eliminate from operating statements the effect of changes in price levels either of purchases or sales or of fluctuations in volume. Furthermore, we are satisfied that the treatment of an inventory write-down under present conditions as a surplus charge would be looked upon with disfavor by bankers and investors generally, and in any analysis of operating results the write-down would be applied against the current profit.

We do not think the fact that some of the items upon which the price declines are computed appear in both the opening and closing inventory has any particular bearing on the question. It simply means that the prices of these items have declined during the year and the difference must be absorbed in the write-down. It does, however, raise the question of whether a further write-down is required for obsolete or slow-moving stock.

Answer No. 2: It is quite rare to find a commercial business of any size which can accurately ascertain at the end of each accounting period the exact amount of the losses which will be sustained in collection of the accounts receivable at a particular date. It is, therefore, generally admitted that the balance-sheet allowance for bad debts, with the resulting charge to the income account, is at best a careful estimate. There may be an occasional unusual case in which there would be justification for charging bad debts to surplus, but, as a rule, such charges should be made to the current income account. If a concern has set up reasonable estimates of anticipated bad debt losses, and if, due to general business conditions such as exist at the present time, the amount of losses is abnormally high, then it would seem that such bad debt losses should be charged to the income account of the period in which the accounts are determined to be uncollectible.

One of the hazards of any business which carries an inventory is the variation in inventory values due to market fluctuations. Inasmuch as such market variations are an essential part of the

conduct of such a business, there seems to be no justification whatever for ignoring such variations as proper charges to the income account. In any year in which there are abnormal declines, it might make a better presentation to show such abnormal amount as a separate deduction on the income account. There might conceivably be a case in which there has been a radical, and probably permanent, change in market values of some inventory item, and the inclusion of the full amount of such change might have no particular relation to the operations of the year in question. For example, if some new process for producing raw materials had been discovered, and as a result there had been a radical decline in the market price and it was fairly certain that such reduced price would continue, then such a decline might preferably be set out separately in the income account, but might be charged to surplus, provided adequate disclosure of such surplus charge were made.

We think it essential that in cases in which justification can be found for charging to surplus items which ordinarily would be charged against the income account there should be adequate disclosure of the amounts so charged to surplus and the nature of such charges.

On the whole, the questions raised in your letter are of common occurrence under present business conditions, and usually are due to a desire to make the results of operations appear better than they actually are and to a failure to face the facts.

Answer No. 3: As a matter of basic principle, every so-called surplus adjustment is, in fact, a correction of the operating results of some year. There are cases in which losses arise which clearly apply to the operations of a prior year and may, therefore, be properly charged against surplus. In a restatement of the surplus account, analyzed as to earnings of prior years, such an adjustment would be directly applied against the operations of the particular year affected.

If it can be demonstrated logically that a reserve for bad debts, at the beginning of the year, was insufficient on the basis of facts ascertainable at the time, the relative increase in reserve for bad debts should be treated as a charge against surplus.

So far as provisions for market decline in inventory are concerned, such provisions should be made by charges against operations in the year in which the declines occur.

Here, again, if it can be clearly demonstrated that inventories at the beginning of the year have, for one reason or other, been overstated, an adjustment of such inventory at the beginning of the year may be made by a charge against surplus, but the provision for such decline as may have occurred during the current period should be charged against current operations.

As to inventory, it should also be noted that it is accepted practice to provide for substantial declines, which have occurred subsequent to the date of the balance-sheet (but prior to the issuance of statements), by an appropriation of surplus. This provision is made for the purpose of stating the balance-sheet conservatively on the basis of latest available information, but the losses represented by such an appropriation of surplus should be absorbed in the operations of the ensuing perid and the appropriation should be reversed.

Appreciate appreciation

(*Cont. from page* 15)

ASSETS	
Current assets	$ 20,000.00
Land, at cost	4,150.00
Land, at appraised value	100,000.00
Buildings	300,000.00
Total assets	$424,150.00
LIABILITIES	
Current liabilities	$ 5,000.00
Bonds payable	200,000.00
Capital stock & surplus	120,000.00
Surplus from appreciation of land	99,150.00
	$424,150.00

With which exhibit I think I can safely turn the case over to the jury. But perhaps I had best sum up briefly in conclusion. Appreciation of values is a violation of the "cost less depreciation" valuation rule, but the "cost less depreciation" rule needs occasional violations, although it is generally applicable. We noted four general kinds of situations under which appraised values gave the credit analyst more significant information than the standard basis. There should, therefore, be no indignation or disturbance of the emotions at encountering appreciation if it has been competently determined and not applied to the confusion of operating results. At its worst, the above conditions having been fulfilled, it is harmless. At its best it is nearly indispensable to an adequate report of the financial position.

Code of ethics for bank credit inquiries

1. Any improper use or dissemination of information received in reply to inquiries, particularly if adverse, will destroy that mutual confidence necessary to the exchange of credit information. To betray that confidence marks the one responsible as unworthy of receiving information.
2. A letter of inquiry regarding merchandise credit should be used only when it is desired to supplement Credit Interchange or other trade reports with information of a more detailed or personal nature. This procedure will assure worthwhile replies to letters of inquiry when there is real need for their use.
3. When a commercial inquiry is addressed to a bank named by the prospective buyer as a reference, that fact should be stated upon the inquiry.
4. A letter of inquiry will be conducive to a more complete reply if it embodies the experience of the inquirer.
5. A letter of inquiry should never be used as a matter of routine but should indicate clearly the object and scope of the inquiry. Its use for indiscriminate revision of files without need for information is undesirable, unfair to the recipient, and tends to lessen decidedly a response to bona fide credit inquiries.
6. If it becomes necessary to make a direct investigation and if more than one inquiry on the same subject is sent simultaneously to banks in the same city, this fact should be stated in the inquiries, and the names of the banks given.
7. If form letters are used in making inquiries, it is good practice to have them bear the manual signature of the inquirer, to establish responsibility.
8. The one receiving an inquiry which states clearly the purpose of the investigation being made fails in the performance of his duty if he neglects giving careful consideration to the inquiries made.
9. In replying to inquiries, it is a breach of good faith to disclose the source of the information without permission.

—As adopted at the N. A. C. M. Convention in Detroit, June, 1932.

Our readers think

I wholly disapprove of what you say and will defend to the death your right to say it.—Voltaire to Helvetius

Thank you, sir

Dear Sir:

We just have to take time out for a few words of commendation for your magazine. The contents, of course, need no elaboration about, for they seem to strike right home.

But the get up of it is what gets our eye, and that of the artists around here. You seem to be one magazine that dares to get out and away from the stereotyped, uninteresting page and cover of the usual trade magazine. That photography for the cover is certainly the work of an artist, and those little zinc illustrations worked through the magazine pertinently touching on the subject matter give it new life and interest. Stay with it.

Cordially yours,
THE BOND ENGRAVING COMPANY.
M. E. Cook, Credit Mgr.

Trial balance analysis

Gentlemen:

At the University of Washington library recently I saw the article in the February 1932 number of your magazine about the use of a Trial Balance as a basis of statistical and informative setups. There is unquestionably value in such efforts and if simple and easily computed they will be attempted and possibly used to advantage.

It seems to me that several improvements may be made with the materials available that make for directness and simplicity. We will accept the Condensed Operating Statement as given although I believe it is not customary to charge drawings of proprietor to Gross Profits. If it is desired to have the owner take a regular stated sum as a salary that would be different; would be uniform.

Let us drop the Analysis of Trial Balance giving a figure for merchandise inventory necessary to keep capital at beginning intact as of no practical value. Also the setup of merchandise inventory necessary to keep capital intact and the estimated inventory with a difference showing the estimated profit, for the same reason.

Let us change the Balance Sheet to show the estimated Inventory as a current; partly because as presented the relation between Current Assets and Current Liabilities is poor and partly because frequently inventory is turning faster and of more intrinsic value than Receivables. Also, a considerable portion of inventory might be turned before some of Payables are due or paid. If Payables are Current Liabilities that which may probably be used to pay them may properly be classified as Current Assets.

The setup of percentages of expense groups to sales may be of great value, but it should be set up as a percentage of each separate expense account rather than in groups. If grouped one expense may be up and another down and not be detected because of the offset. If separate the fluctuation is certain to be noticed.

I am including my simplified presentation. First; a computation in direct form of estimated inventory for October 31st. Second; Condensed Operating Statement. (Which I am not repeating). Third; Revised Balance Sheet. Fourth; Percentages to Sales. (Which I am not repeating).

(1) *Estimated Merchandise Inventory October 31, 1927*

Based upon the accepted average percentage of past years

Inventory January 1, 1927;	
Purchases, Labor, etc.	$140,485.59
Less 82% of Gross Sales	111,393.72
Estimated Inventory October 31, 1927	$ 29,091.87

(2) *Condensed Operating Statement—Jan. 2 to Oct. 31, 1927*

(3) *Balance Sheet October 31, 1927*

Assets

Cash in Bank	$ 8,365.88
Accounts Receivable	16,151.30
Inventory (estimated)	29,091.87
Current Assets	$ 53,609.05
Investments	9,432.50
Plant	5,582.25
	$ 68,623.80

Liabilities and Capital

Accounts Payable	$ 23,601.16
Notes Payable	9,000.00
Current Liabilities	$ 32,601.16
Capital	36,022.64
	$ 68,623.80

(4) *Percentages of expenses to sales*

Thank you,
ROBERT PORTER.

Where's that corner?

Dear Sir:

I have read this "business is just around the corner" stuff until I am prompted, yes, even forced, to comment on the subject. "Do the best you can with what you have today" seems to me to incorporate the necessary thought for putting into practice something which both business and individuals have been delaying until this highly visionary "corner" that we have been hearing so much about has been turned.

So many unfulfilled predictions have been made about the location of this "business corner" we have been about to turn for the past two and a half years that in the minds of the public another prediction about "turning the corner" falls into about the same category as "perpetual motion" or "the end of the world."

Why don't we get down to earth, take stock of what we have (left) and "do the best we can with what we have today"?

If we buy bread and meat today with what the economists tell us we are due to get tomorrow we probably cannot pay for it the day after tomorrow when the collector comes.

If the "corner" locators had all been working on a commission basis so that they would have only been paid for the actual "corner" when they found it I believe that long before this they would have all gotten together and elected a leader who would have said—"Boys we have got to go to work and help business build itself a corner so we can really locate it and draw our pay."

Why don't we as businesses and individuals gather around us our goods

and chattels, view them with what intelligence and experience that we have and say—"This is what I have to do with, and my operations with what I have will be carried on in accordance with today's demand. If I keep my own house in order the chances are that my neighbor will do likewise and success will attend us all."

J. C. Prewit, Credit Manager
WARD DOSSETT-FLOYD CO.
Waco, Texas

"Pay-in-advance" collection agencies

Gentlemen:

I have been quite disappointed that there has been nothing in "Credit and Financial Management" in recent issues with reference to the "pay as you enter" collection agencies.

I realize that the association has always been against such practices, but I think not sufficient warning has been given in Credit and Financial Management. (An article on this subject appeared in our February, 1932, issue.—Ed.)

I have had experience with two such agencies. My most recent experience has been with a mid-western company of this type and it has been most unsatisfactory.

Their method is for their salesman to call on prospects and to guarantee to collect a certain amount based upon the initial payment, or cost of the contract purchased. They have multitudes of testimonial letters.

The purchaser of the contract, however, is quite likely to suffer the same experience as my own and, that is, that the terms of contract are almost impossible to fulfill unless the purchaser has used comparatively loose methods in handling his collections, and in which event he will be in a position to turn over a large amount of claims, which could be easily collected without this expense.

The victim soon learns that the "pay-in-advance" is a very, very poor collection agency. He will find it practically impossible to get individual reports on the claims he has submitted. He will find, if he has the same experience as I had, that they will make no attempt to locate debtors who have moved, and that within a very short time they will inform him that he has not complied with the terms of the contract, and that he is not covered by the guarantee.

I have attached a letter I have received from them, which is in response to one I had written telling them that it was a very difficult matter to comply with their contract.

You will notice that they say that their plan of collecting requires a better class of accounts than ordinarily given to collection agencies, and so it seems ridiculous that a purchaser of their contract should be expected to pay a substantial amount in advance, and also a larger fee for collecting, and at the same time be expected to give them better than the usual run of doubtful accounts.

We gave them altogether one hundred claims. Some of them could not be located, however. On this large number of claims we have received absolutely nothing.

I have written this rather lengthy letter because at the time I signed up with these people I inquired of the Baltimore Association of Credit Men, and the National Association of Credit Men, and from the credit reporting agencies and received nothing but favorable reports. I investigated rather carefully, in view of an experience I had with a similar agency some years back, but as all reports seemed to be favorable I took another chance, which has terminated in this unsatisfactory manner.

Because of this, I think that it would be well that the National Association of Credit Men have on file complaints of this kind, so that future possible subscribers to such agencies may know of the difficulties they are taking on when they sign one of these contracts.

As we are all banded together in our association for the mutual help of one another, it would, indeed, make our membership more valuable and our association of greater benefit if those other members who have been "taken in" by the "pay as you enter" collection agencies report such complaints to the National Association. I am very much afraid that false pride prevents some credit men from admitting such errors. Others may hesitate for fear that they will become involved, but most of those who have had these difficulties perhaps do not think to report them to the National Association, or fail to report them thru indifference, consequently, when an inquiry is received on such agencies the National Association does not have the data on hand which might save members considerable money. The price I paid for this useless contract—for instance—would have paid two years dues in the Baltimore Association of Credit Men. I might have saved this had I known that any of my fellow members had experienced difficulties with the collection agency involved.

Incidentally, mine was one of the smaller contracts. *(Cont. on p. 34)*

In the modern office

An idea and experience exchange on equipment, system and management in the modern credit and business office.

New postal scale

The Hanson Scale Company has introduced a new postal scale three inches wide, six and one-half inches long and seven and three-eighths inches high. The scale indicates ounces and pounds up to 2½ pounds. It possesses two charts, one showing correct domestic postage rate for air mail, first class, merchandise and printed matter the other showing first class rates to foreign countries, in ounces. This latter feature is of great convenience in sending out foreign mail.

Inexpensive duplicator

The Flexograph, a manually operated duplicating device, made by the Heyer Duplicator Company, is a flat bed duplicator which achieves the perfect impression of the rotary type because of a special "flexing" of the stencil. The Flexograph reproduces anything written, drawn or typewritten on the stencil. Impressions are made by running a corrugated metal roller over the stencil. The frame containing the stencil and ink pad is wholly detachable from the base and can be used for printing on bags, boxes or large cumbersome articles. This device seems very practical for short runs of any kind and is quite inexpensive.

The weather

Mark Twain said that everyone talked a lot about the weather but no one seemed to do anything about it. Today there is quite a lot done to control excessive heat, dirt and noise. There are many types of air cooling devices and systems to keep the air free from humidity, shut out coal soot, dust and noise. We have often wondered why office buildings did not contain a swimming pool, showers and a small gym. Certainly such conveniences would be appreciated by a large percentage of tenants and should be self supporting with a very small fixed monthly charge to each tenant.

Foto-Switch announced

A new low cost photoelectric relay, the Foto-Switch, is announced by G-M Laboratories, Inc., of Chicago, Illinois. This unit embodies an electromagnetic switch which is opened or closed by the interruption or variation in the illumination on the photoelectric cell. With the Foto-Switch, any sort of electrical device, such as motors, electric signs, signals, or alarms, can be controlled through the medium of a light beam.

Pneumatic typing

Comment has been made, in these columns, on the rapid perfection and widespread introduction of the typewriter. In addition to the standard machines there are also electric and pneumatic typewriters which serve to speed up production of all typed material. Both forms have demonstrated their efficiency in every day routine usage. The slightest upturn will probably witness a far wider appreciation of these means of rapid letter production. The Auto-Typist, made by the American Automatic Typewriter Company, of Chicago, is an excellent example of the possibilities of pneumatic typewriting. This machine consists of two units, one a perforator, the other a standard typewriter mounted on a special desk. The Auto-Typist is operated by a perforated paper roll, on the same principle as a player piano. Typewriter keys are actuated by a suction which approximates the human touch. Degree of suction can be regulated for a heavy, medium or light stroke. A single operator can, with four Auto-Typists produce from 400 to 600 personal letters a day. With a single machine 100 to 150 can be produced. These letters are perfectly typewritten and have no indication of automatic reproduction. Any kind of variable paragraphs, special names, amounts, etc. may be filled in the body of the letter. In brief, each letter is 100 per cent personal. Operating costs, according to many users, are low, and results in speeding up collections and increasing sales are outstanding. We believe, that, intelligently used, the Auto-Typist would be a distinct adjunct to any credit department. Those of our readers who desire more information on the subject will find the company's "Automatic Speed at 1/7 the Cost" an interesting booklet. It may be had, without cost, from the manufacturer.

Summer

The "summer lull" which occurs in most offices, together with uncomfortable weather, vacation periods and a general letting down of energy, accents a lack of foresighted planning of routine work. An army does not give up discipline and morale in time of peace. An office should not have too great a disorganization during summer months. Plans could be made to take care of untimely work during the summer. Plans certainly should be made to keep the office reasonably cool. In smaller organizations matters of fans, air conditioning, water coolers, etc. depend on the whims and prejudices of the owner. If he believes that "fans give colds", "iced water is unhealthy", "air conditioning is the bunk", his staff of ten or twelve or more people must do without these things. It is really shocking to see the primitiveness of some offices in the matter of most elementary summer conveniences. As a side-light on this situation, it is very amusing to hear manufacturers speaking of "saturated markets" when what is really wrong is sales coverage and the intelligent demonstration to management that certain things pay good dividends in increased employee efficiency and morale.

For home work

Several useful items for the executive who does occasional work at home have recently been introduced. Art Metals "Deskette", a small desk with filing cabinet and storage facilities combined should prove most useful, and Royal's "Signet" portable typewriter, sold at the lowest price ever attempted in the typewriter field, should have a wide range of uses. The feature which most impressed us about the Royal was the elimination of all shifting for capitals, punctuation, etc. Executives using the "hunt" system of typing should find this an aid to greater speed.

Business show

The 29th Annual Business Show will be held at Grand Central Palace, New York City, October 17th to 22nd inclusive.

"We consider that our Comptometers are worth $448,000 INCREASE IN SALES...!"

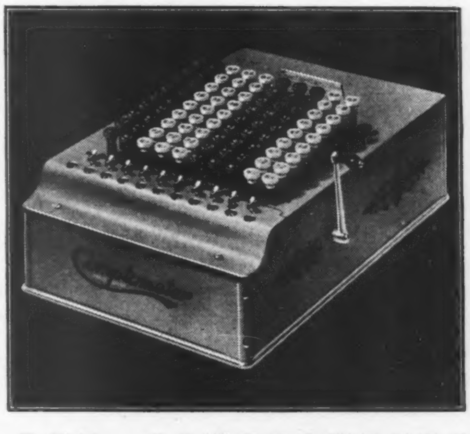
When the cash savings produced by a Comptometer installation are translated into other terms, they often have a new significance. The treasurer of a Pennsylvania Oil Company counts his six Comptometers as so many profit-producing salesmen, working without salaries or commissions.

He says: "Since installing a Comptometer system, we have saved approximately $13,440 a year. In the Auditing Department, the saving is $410 a month — in the Credit Department, $515 a month — in the Gallonage Department, $195 a month. *We consider that our Comptometers are worth* $448,000 *increase in sales, at a net profit of* 3%."

A method of performing figure-work that affects Profit and Loss the same as added sales has *proved* its value. Comptometer savings vary, of course, according to the business. But the average minimum saving, based on a large number of cases, is $1000 a year per machine.

The economies achieved by Comptometer installations are the result of, first, analyzing the individual accounting problems of each business and working out the best solutions. Second, centralizing figure-work so that it will be done on a production basis. Third, using the Distribution Board method to get final results from original records, without recopying. Other important economy factors are the speed, accuracy and flexibility of the machine itself.

One of our trained representatives will be glad to study your office routine and show you, by convincing tests, how Comptometer methods can reduce your costs. Just call our local office, or write direct. There is no obligation. FELT & TARRANT MFG. CO., 1717 North Paulina St., Chicago, Illinois.



THE COMPTOMETER
Made only by Felt & Tarrant

COMPTOMETER (TRADE MARK) *AUTOMATIC ACCURACY*

The Glass bill under the glass

(*Cont. from page 27*) Vandenberg's address of May 12, in which he sums up the case so well.

"I have been one of those, and still am, who feel that the preservation of decentralized community life is absolutely essential to the preservation of the traditional American community character. I feel, furthermore, that decentralized community life is impossible without a practical degree of decentralized commercial and banking independence.

"But we confront a condition and not a theory today, and, even in defense of decentralized community life, situations readily may arise in which limited branch banking might be the only community salvation. Certainly it would not protect decentralized community welfare, Mr. President, to close the door on a banking facility which might prove to be the community's only way of saving the solvency of its banking resources.

"Branch banking might be this sole available facility. Neither does it protect decentralized community welfare to close the door on a banking facility which may be the only such facility available after all the other banking facilities have failed or been withdrawn. Indeed, it might well be argued that under certain circumstances a recourse to limited branch banking may well prove to be the means of keeping alive many a decentralized community which otherwise might disintegrate through its very inability to secure any banking facilities whatsoever. It is only in line with that philosophy that I have been able to bring myself into harmony with the theory that under existing circumstances limited branch banking permission might well be authorized in the United States. Indeed, I am persuaded that it has come to be necessary to provide this limited recourse under proper protective restrictions. It is the creation of one more optional emergency reliance for the benefit of communities and bank depositors and bank borrowers. I believe my amendment adequately protects the option against exploitation."

I am in favor of the Glass Bill in that particular section as modified by Senator Vandenberg's amendment. If *you* have a better suggestion and can write a better law than the Glass Bill as modified by Vandenberg's amendment, I know Senator Glass and Senator Vandenberg would be glad to have it. They have worked with this end in view in an endeavor to do everything to protect small communities from exploitation, and yet not innocently assist that community to write its own obituary by insisting upon the form of independence which is an empty shell after the local banking facilities are wound up.

Another provision in the bill provides for a stricter supervision by Federal authorities of bank operations. Heretofore, if a bank officer or board of directors pursued courses which were unsound from a banking standpoint, they could either let them go along after warning them or would have to close the bank; which usually hurt the community, the depositors and everybody concerned more than it hurt the offending officer or board of directors.

If the Federal Reserve Agent or if a National Bank Examiner finds an officer is continually pursuing unsound practices and refuses to heed warnings, he can be cited to the Federal Reserve Board for improper conduct as a bank officer. The offending officer or offending Board of Directors is brought before the Federal Reserve Board under necessary legal protection and is ordered to show cause why he or they should not be removed from office, on the ground that even that invasion of individual rights is justified on the fundamental doctrine of the greatest good to the greatest number, which is the basis of all our laws, I suppose.

That provides a definite means for controlling bad banking practices which had never been available before. I feel every sound banker in the country is behind and suporting that idea. The good banks have nothing to fear and the bad banks we want to get out of business anyway. The fact of the very existence of that provision in the law should make it a rare occasion when the provisions are called into effect.

The Federal Liquidating Corporation, which is provided in the Glass Bill, provides for setting up a corporation under government auspices. To that corporation are contributed $125,000,000 out of the surplus of the Federal Reserve Bank. That, according to Senator Glass, is really money that the Federal Reserve Banks should never have paid to the Treasury. So, there is no new money coming out of the Treasury for that purpose. It is merely a devoting of these funds, earnings by the Federal Reserve Banks, to the relief of depositors in closed banks. In addition to a subscription by Federal Reserve Banks in an amount equal to one-fourth of their present surplus, the member banks of the Federal Reserve System would be required to subscribe a percentage of their deposits, so that every important bank participates in the organization of this federal corporation. That corporation is permitted to purchase outright assets of closed banks or make loans against those assets to receivers.

There is nothing in that provision, let me emphasize, which would guarantee the payment of all deposits. It merely means that those assets that can be liquidated and paid out will be paid out very promptly rather than as at present waiting two or three years to get their money on liquidation. That provision, it seems to me, is very valuable in that it provides a safe and sound way to return to depositors the funds to which they are entitled. It goes as far as it is humanly possible, I won't say in guaranteeing, but in supporting the moral obligation of a bank to its depositors.

I think we all agree, after we go into the subject, that outright guarantee of all deposits would be impossible. It would involve the writing of a guarantee of some $60,000,000,000. Who is going to sign that? If it were done, as proposed by the Steagall Bill, to which I am opposed, it would merely accentuate and emphasize bad banking because under that the unsound banker would be fully as well protected as the fellow who is trying to do a good job. It would put a premium on unsound banking.

Previously, I spoke of the Glass-Steagall Act. We are all a little concerned about business and where we are headed, but we haven't any reason to worry. America has lost a great many skirmishes but it has never lost a war, and one important thing in this period of stringency through which we are passing is a matter of reserve. We have ample reserves. We are going to win. The problem right now is to win as soon as possible and with the least possible loss.

We are still Americans. What we need in this particular situation is that combination of resourcefulness and moral courage, which is going to be able to win. It has always licked all the arithmetic and statistics and analysis in the world, and if you were going to sum it up in just one word I would say what we need is just a little more old-fashioned Americanism

Our readers think

(*Cont. from page 31*) The amount of the initial payment increases and at the same time the "guaranteed return" increases rapidly in proportion. Nevertheless, I have found that the "guaranteed return" is a myth.

I would like to hear from my fellow members through "Credit and Financial Management" on this subject.

Cordially yours,

WM. C. ROBINSON & SON CO.

William E. Garvey, Credit Manager

This is a copy of the communication received by Mr. Garvey from the agency that handled his collection contract in such an unsatisfactory manner.

Gentlemen:

This will answer your letter of May 17, and will say that it is really not a difficult matter to use........ service. In fact, it is a very simple procedure. Of course, if you do not have the material on which to use the service, it would naturally be a difficult matter to use the service properly.

Naturally since you purchased and agreed to use the service, we only assumed that you were in a position to do as you agreed to do. And we only regret that you were not, for we feel confident that if you had done so that you would have enjoyed more than satisfactory returns.

Our organization is not to be classed with collection agencies. While it is our purpose to liquidate past due accounts, and we do actually perform all the functions of such an agency, however, we have also the finance plan which naturally must cover a better class of accounts than are handled by an ordinary collection agency.

Complying with your request, we are today closing our files on your claims, and you may consider them returned to you.

Inventory control

(*Cont. fr. p.* 12) distributive recrd, and at the end of the month, the record of each kind of goods is transferred from Form 5 to this form. *Inward*—there is transferred the total record of each kind of article—its stock number—date acquired—name of article—on hand at the beginning of the period—unit and total cost amount—net quantity and amount to be accounted at cost. *Outward*—quantity sold and/or returned at sale price—net quantity sold at *sale* and *cost* price. *Transfers* at cost—for alterations—breakage—shortage—etc. *Residuary Inventory* at cost or market worth of all articles dealt in by the department.

FORM 6—The same four divisions rulings—and headings referred to in preceding paragraph. The analytic distributed totals of each department summary, at the end of the month are transferred to this *consolidated summary of all departments.* From this consolidated summary at the end of the month, a charge is made to each respective department of the net cost of goods sold based upon the reported and confirmed amount of the gross sales—returns and cash transfers as recorded by the financial department. *The total cost* of sales for all departments is credited to the general store stock control account. There is also charged to the respective accounts at *cost*—alterations—shortage — breakage and goods for use as an expense which are credited to the general store stock control account. Each binder containing Form 5 represents the stock record of each department and confirms the balance of the general store stock control account, and the monthly totals of this summary co-ordinate with Forms 1, 2 and 4.

FORM 7—It can be used in a continuous roll with cash register or in pad form for counter use for any kind of business. Carbon paper is inserted between original and carbon copy. The carbon copy is delivered at end of day to financial office and confirms the cash register record. The original is perforated horizontally to provide a coupon for each kind of goods as consecutively sold, carrying with it the stock number—quantity—cash—charge — or return price. At the end of the day, the detached coupons, when assorted under respective stock numbers, are summarized as to quantity and total amount of sales for each kind of article which agrees with the total amount of the day's sales as shown by the carbon copy. When a cash register *is* punched, it records the sale or charge, but when *not* punched, the cash or goods represent a capital loss. Inventory control reveals the shortage of specific articles whenever stock is taken.

At the end of a past period, goods have been included in the inventory as "taken, stated and valued" after inspection, but the post-dated invoices were not entered as a liability until the next period which improved the financial condition as shown by the financial statement that was used for credit purposes.

A budget for future expenditures, unless based upon correct gross trading profit realized upon business done, is *worthless.*

A *frivolous* discrepancy of $2,000,000 representing only 2 per cent of the annual amount of $100,000,000 business done is usually explained as occasioned by theft, etc., etc., but the articles stolen cannot be stated—nor can there be properly accounted any part of the discrepancy, which could not exist if correct inventory control had been maintained. The enormous discrepancies in inventory today are concealed by adding them to the cost of goods sold—the result of the financial audit of today.

Trade discount on purchases, realized by paying bills when due, are included in and *inflate* the cost of goods bought (which includes the residuary inventory) and in accountings of today is treated as an extraneous profit realized from buying goods, whether sold or unsold.

No public auditor should evade responsibility by the insertion in a report "the services that have been rendered upon which the results are based in a submitted accounting. In the report should be inserted "what has *not* been done" with reasons why! This information is now sought by the credit-man and banker and it will also guide the investor to avoid in the future, the enormous losses of the past. A profitable business does not resort to fire, bankruptcy nor re-organization methods.

Realizing the great necessity for inventory control without discrepancies, which exceed many millions of dollars annually, as a safeguard for successful business, I have, for a number of years, devoted a great deal of time in locating the destructive "germ." "Inventory Control," as hereinabove outlined, is the "cure" and has proven itself by a practical analysis (*Cont. on p.* 40)

Insurance digest

Inaugurated because of the credit fraternity's close contact with the insurance field and need of information about it.

N. Y. rate increases are held unlikely now

Although there has been considerable discussion among insurance men and in the trade press with respect to the need for increased fire insurance rates to offset declining premium income, higher expense and loss ratios and absence of investment profits no definite steps have been taken as far as concerns the New York State Fire Insurance Rating Organization, according to *The Eastern Underwriter*. It is not considered probable that any widespread increases in the general rate schedules will be made in this state in the near future but fire underwriters are seriously studying the questions of securing added revenue for long period vacancy permits and of curtailing payments on those small, although frequent, losses commonly known as cigarete claims but embracing all sorts of claims arising from smoking.

The New York standard fire policy contains this clause with respect to vacancies: "Unless otherwise provided by agreement in writing added hereto this company shall not be liable for loss or damage occurring (f) while a described building, whether intended for occupancy by owner or tenant, is vacant or unoccupied beyond a period of ten days." However, nearly all policies contain permits in writing granting extensions of the vacancy period or else the average family, as far as residences are concerned could not leave even for the customary two-week summer vacation without endangering its fire insurance.

Real trouble has arisen because in too many cases extensions of the vacancy permit are interpreted by assureds to mean anything from eleven days' unoccupancy to practically permanent vacancy. In these days of widespread unemployment and curtailment of industrial work the number of vacant residential and mercantile properties has increased tremendously. Two and three families are living in houses where one lived before. Small and large factories have been shut down for lack of markets. These conditions have not only led to insured vacant properties but also to a very evident increase in the fire loss ratio. The moral hazard element plus that of lack of care and upkeep have served to render a large majority of these unoccupied risks bad at present rates.

It has been suggested in New York and other parts of the country that fire insurance companies be permitted to charge additional premiums for periods of unoccupancy beyond a minimum period, the surcharges to be based upon a definite schedule of weeks and months. Thus the assured who left his property vacant for three months would pay more than the ordinary policyholder but less than the individual who should have a six months' or longer unoccupancy period. Requests for such additional premiums to offset added risks appear justified. Whether they will actually be put into force here depends first upon agreement among the fire underwriters themselves and second upon approval by the State Insurance Department of any such application.

Informal discussions on the problem of cutting down cigarette claim payments are still being carried on. This question has been agitated for more than a year but nothing definite has been proposed which has so far met widespread approval. Most company men agree that the payment of these smoking claims constitute a vital factor in injuring prospects for underwriting profits but they are not altogether in accord as to the remedies to be applied. Some have suggested that such claims, especially if they are scorch claims only and do not result in any real fire damage, not be paid at all. Other leaders in the fire field would set a minimum amount of physical damage as the measure to determine whether such a loss should be paid.

It would not be at all surprising if agreements on the unoccupancy and cigarette loss problems were arrived at before the end of 1932 for the reason that fire companies cannot indefinitely continue paying these losses without deriving some sort of income from the public to compensate for the extra hazards involved. Neither of these additional risks was contemplated when the present fire rate schedulees were adopted but have crept in by reasons of competition aand lack of accurate knowledge as to their costliness.

Some fire insurance men profess to believe that discontinuance of granting a half year's insurance free under three year term policies would augment premium income to that extent. They say that fire insurance rates are today as low as they can be consistently upon the annual basis and to hack additional bits away by use of the term policies only serves to make underwriting profits still more difficult.

On the other hand, many company executives and underwriters contend that granting some concessions to assureds for the purchase of long term policies is absolutely essential. The policyholder who puts down a three year premium at the outset of a term policy voluntarily foregoes interest or capital returns upon his money for the period beyond the first year of his insurance and naturally demands something in return. If that were refused fire insurance would quickly revert to a one year policy business with all the attendant troubles of writing renewals, placing small residential policies annually and stirring up the antagonism of local agents.

The production forces of the country would certainly rise up in all their wrath at the prospect of being compelled to resell all their fire business each year in the face of the competitive conditions of the present. While many large risks are subject to disturbance from competitors even before renewals come up, the majority of assureds do not switch accounts except upon the expiration of existing insurance. For that reason the three and five year term policies are a distinct advantage, even admitting the argument that when such a long term contract is issued insurers are often unable to foresee situations which may arise during the term of the policy to change basic conditions in a manner unfavorable to the insurance companies.

We can prepare for the future by studying the past.

—*William Feather*

Duffield extols insurance record

Edward D. Duffield, president of the Prudential Life Insurance Company of America in his address of welcome to the more than 1,000 representatives of the company at its 1932 business conference pointed with pride to the record life insurance has made during the economic crisis which the world is now passing through.

"The record life insurance has made," said Mr. Duffield, "will indicate that whatsoever else may be shaken or fall, it will stand. It has today greater confidence in the minds of the American people than it ever has had before.

"The life insurance policy of today," he continued, "is worth more than it was when the depression commenced, and during this troublesome time all claims have been met promptly at maturity. This is the record we hand to the American people.

Think what the conditions would have been if the Prudential and other insurance companies had been unable to pay the vast sums they distributed during 1931. It has helped to preserve the morale of the people. It is our contribution to bringing prosperity back," he said.

Proximate cause of fire loss

The Massachusetts Insurance Department has informed an inquirer that a fire insurance company is not liable under the standard fire policy for a loss to property of the insured caused by water issuing from a water main that is broken by the pressure put upon it by fire engines drafting water therefrom to extinguish a fire in a building of another person at some distance from the insured's property. Counsel for the Department holds that the law is well established that the loss or damage must result from fire as a proximate cause, says *The Eastern Underwriter*.

In support of his decision Counsel Harold J. Taylor cited the case of Foster v. Fidelity Fire in which the plaintiff sought to recover for damage to his building caused by a fire engine leaving the street while en route to a fire elsewhere and colliding with the assured's building. The court held that he could not recover under his fire policy since the fire was not the proximate cause of his damage.

A fire is the proximate cause of a loss when the loss has resulted from the operation of a force set in motion by the fire without the intervention of any new and independent force. In one case cited by Mr. Taylor a fire caused a short circuit of an electric current used to operate certain machinery. This caused damage to machinery elsewhere and it was held the assured was entitled to recover. Also in a case where flames escaped through a crack in a stove and heated a sprinkler so that it discharged water and caused water damage. However, these close connections between the fires and the damages caused were decided not to pertain to the case of the damage to the water main.

Fire loss ratio declines in Chile

In 1925 the Republic of Chile adopted a law by which the government regulated the insurance business.

This method has been, so it is claimed, instrumental in reducing fire waste and incendiary fire, which formerly formed a large percentage of the fires in the republic. A recent table published in Seguros e Impuestos, the official publication of the Caja, gives the following figures:

Year	Pesos. Premiums Paid	Losses	Loss Ratio
1926	52,150,139	26,499,418	51%
1927	51,914,453	24,843,450	48%
1928	55,534,599	13,166,585	24%
1929	56,705,152	17,136,531	30%
1930	59,739,846	22,815,307	38%

Peg-boards peg costs

(*Cont. from page* 13) department posts the unit cost to the column provided on the duplicate invoice and sorts them to salesmen. The Comptometer operator then adds all invoices for the month for one salesman and places the total at the bottom of the strip. This figure is used for a check.

Next the items are picked off from the invoices. Starting with the most frequent commodity, the operator turns through the invoices, adding the sales figures of that commodity into the left-hand side of a 12-column Comptometer. While doing this the items are multiplied by the unit cost, accumulating the total cost of the commodity on the right-hand side of the machine. The total accumulated figures are then copied to the strip in the space opposite that particular commodity number.

By going through the invoices a second time, the next most frequent commodity is picked off in a similar manner and posted to the strip. This process is repeated until all commodity items are extracted. Since 75 per cent of all items usually fall into four or five classifications, the operator eliminates many invoices after taking off those four commodities; so that the task of drawing off the items by commodities is rapid and easy.

Each strip, when filled out, represents the monthly sales and cost of sales for one salesman broken down according to commodities. This process is repeated for each of the 20 salesmen.

The resulting 20 strips are in turn shingled on a Peg-board. The strips overlap one another, as shown in the illustration, so that only the figures on the sales column are visible. The operator cross-adds for the total sales of each commodity for the month and writes the figure on the recap strip.

The strips are then removed from the Peg-board and reshingled so that the figures in the cost of sales column are visible. The items are cross-added as before to obtain the cost of sales totals which are likewise recorded on the recap strip.

To check this information each total at the bottom of each column on the strip is cross-added and balanced with the total on the recap strip.

A reproduction of a Peg-board strip is shown at the right.

Dept. Weekly and Monthly Sales and Cost of Sales

Date

Sales		Dept.	Cost of Sales	
		1		
		2		
		3		
		4		
		5		
		6		
		7		
		8		
		9		
		10		
		11		
		12		
		13		
		14		
		15		
		16		
		17		
		18		
		19		
		20		
		21		
		22		
		23		
		24		
		25		
		Total Sales		
		Express		
		Prep'd Frt.		
		Cartage		
		Parc'l Post		
		P. P. Ins.		
		Misc.		
		Total Billing		

Surveying character

(*Cont. from p.* 21) or any other source of information—it amounts to a potential increase in profits. A few letters or telephone calls to references supplied by the purchaser frequently will indicate a seemingly satisfactory risk. These, however, are all selected references and, particularly when the purchaser is not employed by some known concern, the information developed through a personal inspection right in the purchaser's home and business surroundings will quite occasionally bring to the surface unexpected information.

Finance companies are continually doing their utmost to educate manufacturers and dealers of various types of merchandise sold on terms to the desirability—and it is pracically a necessity—of securing adequate information on their retail customers before they deliver the merchandise and offer the paper to the finance company.

Almost certain losses are bound to result where a proper checking of the retail credit is not maintained. The finance company can in many cases develop the unfavorable character of the risk and turn the paper back to the dealer. This, however, is unsatisfactory as it leaves the dealer facing a possible loss. While the finance company most certainly does not wish to carry business of this type, there is anything but a satisfactory feeling in seeing a dealer customer load his receivables with such business. The cure is to educate the dealer to sell properly in the first place and eliminate such hazards in advance. The only way he can do this is by having adequate credit information regarding his customers before he delivers the merchandise. It is true that these reports are an expense item in themselves, but they more than pay their way. There are many examples. One particular case is a large dealer selling a national product, largely on time, who for a long time has obtained inspection reports on virtually every purchaser—the results have been startling in that repossessions are very low and are well under one-half of the national average. The result has been very substantial savings rather than expense and is reflected in the dealer's balance sheet.

To the increased degree that adequate character and personal history information, as covered by the inspection reports furnished by reliable companies,

is obtained and intelligently used by merchandisers and manufacturers, to so much greater extent can their losses—and in some cases consequent losses to banks and finance companies—be curtailed and turned into profits.

Good merchandise honestly sold to good risks is going to occasion mighty few losses for anyone.

Budgets and credits

(*Cont. from page* 20) Others have very wisely established an office equivalent to that of budget director.

Summarizing the replies of 71 companies as to the advantages of industrial planning and budgetary control the National Industrial Conference Board listed the following benefits:

"I. Budgetary control provides the basis for:
(a) Administrative control;
(b) Direction of sales efforts;
(c) Control and planning of production to cover seasonal variations with a minimum of disturbance of operations and employment;
(d) Control of inventories and consequent avoidance of excessive inventories;
(e) Price setting before product goes into production;
(f) Determination of financial requirements, arranging of bank loans, releasing of capital, and reduction of loans;
(g) Maintaining a satisfactory cash position;
(h) Ascertaining which persons in the country are the best managers;
(i) Control and reduction of expense;
(j) Control and reduction of costs.

"II. Coordinates:
(a) Finances, sales and production;
(b) Plans of the various departments;
(c) Widespread activities of large companies.

"III. Affords a broader perspective of operating policies.

"IV. Presents a standard practice toward which to strive."

Certain by-products to the above benefits may be listed, namely, (1) it affords the firm a method of constant self-analysis, (2) better understanding between employees and employees and the management, (3) a basis for obtaining working capital credit from banks, and (4) long-time loans for the purchase of equipment and plant.

As has already been pointed out, it is not improbable that in the not distant future banks and other financial institutions will demand of borrowing firms not only (1) detailed balance sheets, (2) detailed profit and loss statements, (3) voluminous operating statistics and information not included in these two statements, (4) cost accounting data showing the cost and profits, costs and profits on sales territories, products, customers, salesmen, dealers, and according to terms of credit, but also (5) budget plans of operation, plant and equipment needs for from one to five years in advance. Moreover, the wise executive will not object to this requirement because he must realize that he should constantly know this information for his own guidance.

Messrs. James O. McKinsey and James L. Palmer summarize the rudiments of budgetary procedure in the following words:

"1. Statements of plans of all departments of the business for a certain period of time in the form of estimates.
2. Coordination of these estimates into a well-balanced program for the business as a whole.
3. Preparation of comparative reports showing a comparison between actual and estimated performance, and revision of original plans when these reports show that such revision is necessary."

The length of the budget period will naturally, like the other procedure, vary with the peculiarities of the particular business. Though the operating budget will normally be made for at least a year in advance it will also be broken down to a monthly basis and constantly revised as the year progresses and changed circumstances justify. Factors which determine the length of the budget period include:

1. Seasonal factors peculiar to the business.
2. Length of the production period.
3. Methods of financing working capital and fixed capital.
4. Capacity of plant and equipment.
5. Lack of necessity for long-run planning.
6. Difficulty of long-run planning because of seasonal variations, style changes, and special orders.
7. Length of the financial and cost accounting periods.

Messrs. McKinsey and Palmer further outline the steps in budget procedure to include:

"1. To submit to the department heads any data necessary for drawing up estimates for the budget period. Such data will usually take the form of reports on past operations.
2. To receive from department heads the periodic estimates of the operations of their respective departments. The executive in charge of budgetry procedure usually designs the forms on which department heads submit their estimates.
3. To transmit the departmental estimates to the budget committee accompanied by his recommendations. He may also prepare an estimated balance sheet and an estimated profit and loss statement which will indicate the effect of departmental estimates on the financial condition of the business at the end of the budget period.
4. To supply the budget committee with additional data which will assist it in the consideration of the estimates.
5. To receive from the budget committee the approved estimates and transmit these to the various departmental heads.
6. To see that the necessary information is made available at periodic intervals to permit a comparison between the actual and estimated performances of various departments.
7. To transmit this information to the budget committee together with his recommendations.

(*Continued on page* 40)

Answers to Credit questions

Conducted by Walter C. Foster

The National Association of Credit Men supplies answers to credit questions and some of the answers, of general interest are printed regularly in Credit and Financial Management. Advice cannot be given, however, regarding legal rights and liabilities. Such advice should be obtained from an attorney to whom all the facts should be stated. When such inquiries are received, information is furnished only as to the general principle of law involved.

Joint title to Pennsylvania real estate

Q. *In Pennsylvania can a creditor proceed to liquidate the realty holdings of a debtor, the real estate being held jointly with a person other than the debtor's wife?*

A. When real estate in Pennsylvania is conveyd to a husband and wife they become tenants by the entirety and the property cannot be levied on for the debts of either during the lifetime of the other. Where property is owned jointly with another person who is neither husband nor wife, there results either a joint tenancy or a tenancy in common. In either case, however, the joint interest of either party is subject to levy for the payment of that party's debts.

Pennsylvania bulk sales act

Q. *Would the following come under the provisions of the Pennsylvania Bulk Sales Act? Creditor's salesman reports that Doe has succeeded the Blank Company and asks for permission to ship Doe on credit. Subsequently, creditor notifies the Blank Company that action will be commenced immediately if their account is not extinguished. The Blank Company infers the Bulk Sales Act not applicable inasmuch as while Doe took over their lease, an arrangement was made with him to sell the merchandise on a commission basis during the course of his business. In other words, Doe did not buy their stock but had it consigned to him. If this is true, would the deal be subject to the provisions of the Act? On the other hand, should there be reason to question the veracity of these assertions, how could verification be made, assuming that the transaction bears earmarks of collusion?*

A. The essence of a sale in bulk is a conveyance of title from the seller to the buyer which would serve to make the property unavailable for the satisfaction of a judgment against the seller.

Where a stock of merchandise is placed in the hands of another person on consignment, title remaining in the consignor, there is in our opinion no violation of the Bulk Sales Law for the reason that there is no sale or transfer within the meaning of the statute. The nature of such a transaction can be inquired into after obtaining a judgment against the original debtor. Practically every state has a statutory provision for an examination of a judgment debtor, and undoubtedly Pennsylvania is no exception to this rule.

Consignments

Q. *What papers or requirements are necessary in forwarding merchandise on a consignment basis in order to properly protect the shipper in the event of the consignee going into bankruptcy or receivership, or in the event of the store being sold? Must one be governed by the laws in the individual States? Is it necessary to record such transactions?*

A. The subject of "Consignments" is covered in the Credit Manual for 1932 on page 108, and a form of consignment agreement is set forth on page 380. In addition, we direct attention to the fact that in Pennsylvania a landlord has a lien on all property on the leased premises, whether or not the same belongs to the tenant, for rent, for a period of twelve months in advance. In that state it is necessary, therefore, in order to insure protection on consigned merchandise, to obtain a waiver from the landlord of any claim against the consigned goods before the same are placed on the tenant's property.

Merely mailing a notice: "This merchandise forwarded on consignment" and an acknowledgment by the consignee that he has no title to the merchandise constitutes a sufficient consignment contract, provided that the conduct of the parties thereafter is consistent with the consignment status. If the consignee is permitted to use the property as his own and to sell the property and mingle the proceeds with his own moneys, there is serious doubt whether an informal agreement of this kind will stand up against an attack by a trustee in bankruptcy. The better practice is to have a formal agreement along the lines of that published on page 380 of the Manual.

Budgets and credits

(*Continued from page* 39)

8. To transmit to the departmental heads anv revisions of the original estimates which have been made by the budget committee.

9. To establish and enforce all procedures and schedules necessary to operate the system of budgetary control. Not only must procedure be standardized, but schedules must be established for the preparation and routing of estimates and reports to assure effective operation of the budgetary program.

The National Industrial Conference Board found from one to twenty clerical and technical assistants to each budget executive to assist in the carrying out of budgetary procedure. It also found the number of executives, from all departments, composing the budget committee to range from two to nine. The prevailing number of members on the budget committee was three or four. Ten of the 95 companies studied used only senior officers on this committee. Only one of the 95 companies used members of its board of directors as its budget committee.

Of 34 companies reporting on this point five stated that their budget committees met weekly, three bi-weekly, fourteen monthly, one bi-monthly, and eleven when necessary.

The budgets of the companies were usually finally approved by the president and board of directors before they were turned over to the departmental executives for execution.

Inventory control

(*Cont. from p.* 35) of actual transactions and procedure by use of simplified forms which I have especially designed for this purpose.

Information as to the forms mentioned in this article can be obtained through Credit and Financial Management.

Collection, sales survey

(*Continued from page* 23)

tion: "Should farmers sell their grain at present low prices, paying only a portion of their current debts, but actually putting considerable cash in circulation, or should they hold their grain for better prices." The predominating response is "Sell—there is no assurance of better prices." With the extremely low prices for grain, agriculture is not going to make a very strong comeback in the Fall. Improvement is going to be slow, but there is an indication that we are on the up trend. St. Paul notes an improvement in sales. Some commodities are moving that have been stagnant for some time. The recent rains have helped the corn crop and the anticipated damage to small grain by the grasshoppers seem to have been checked. On the whole, Fall conditions should show a much better sales and collection situation.

NEBRASKA: Conditions in Omaha are as follows: Sales in foodstuffs are holding up generally in fairly good volume, otherwise there has been a seasonal slump in wearing apparel line. Due to improved prices for cattle and hogs, plus crop prospects, there has been a decided improvement in tone.

NEW JERSEY: Conditions in Newark have improved somewhat.

NEW YORK: The cold weather in Binghamton has had a very adverse effect on sales. although collections are fair. One section reports an improvement in collections and sales.

OHIO: There has been a slight improvement in collections and sales in Cincinnati and the general outlook is bright.

RHODE ISLAND: Providence has noted an improvement in conditions during the past month.

TENNESSEE: There has been no marked change in Chattanooga since last month. Conditions will continue slow in Memphis until the crops start moving this month. (*Continued on page* 44)

A good moral risk

by A. B. COULTER, Sec.
Tacoma Paper & Stationery Co.
Tacoma, Wash.

Fate, it sometimes seems, delights in singling out a man to try him with the hard knocks of adversity. She rains blow after blow, in quick succession, then stands back to watch how her victim reacts. If he has a weak craven spirit, he yields to despair and goes down, blaming everyone but himself for his failure or difficulties; but if he is courageous, has faith in himself and in the forces that control the universe, he fights back with a smile, sometimes, and, at others, with grim determination—but always fights, and the world admires a fighter. For some men it takes only one blow to put them down and out. It may be financial loss, sickness, death or disappointed ambitions; and, when it comes, they feel defeated in the game of life, discouraged —a moral coward. The man in the street today is worse than a coward when he talks about poor business, decreased sales, lack of profit, fear, depression, pessimism—all mere material things—and sees the future dark, uncertain, hopeless.

This man I recently met was made of sterner stuff—a Spartan of old. No coward was he, no defeat for him, no despair—if he went down, he would go fighting. When I saw him he had been in bed two months and had another to go before he could even hope to sit up. It was a broken hip. He lay in a plaster cast, that extended from probably six inches below his shoulders to his knees. His legs were spread far apart and kept so by braces and in this position he lay day after day, week after week with no relief. Above his bed were ropes and pulleys, used when necessity required it. At one side a phone, the radio on the other side. He was no longer young—maybe sixty—at least, he had passed the vigor of youth and the physical strength of young manhood.

Just before his fall his son was stricken—taken to the hospital. That meant bills and bills—doctors, nurses, hospital. A little later a child came to the young wife. More bills, more hospital expense. And then his accident! Only one who has experienced it knows the terrific drain on one's often slender resources with doctor and hospital bills thrice multiplied. The son was removed to his home and was still confined there while the father lay helpless in his home. Not a bright or encouraging picture! Not a rosy future! Hardly so.

And then what of the business of the two stores with both heads gone? Should he give up in despair and turn the business over to creditors, or should he fight his way out? He chose the latter course. Even though it would seem as though overhead, thrice multiplied, and tremendous expenses would overwhelm him, he installed a phone at his bedside, had all mail sent to him there and, with the aid of his wonderful wife, was in constant touch with his business and kept it on an even keel.

Nature's law of compensation was at work. Disaster brought to his side friends by the score, yea, by the hundreds. The doctors rallied round him and sent their prescriptions to his stores. The fraternal organization to which he belongs—some three hundred strong—stood behind him and he found that, after all, there *is* friendship in business; there *is* loyalty; there *is* recognition of a manly man; there *is* that something that makes the whole world kin. The realization of this broke down his cynicism and gave him the gentler touch and the encouragement he needed.

The ordinary man under such trying circumstances would have whimpered, complained and felt sorry for himself, but not this man. His optimism, his courage, his faith, gave him strength to carry on and to see and to know that there is a silver lining to every cloud. He was no quitter—not he. "I'd rather be taken out and shot as a worthless thing than to admit defeat. They may hang me, or put me in jail, or take my business, but I am master of my soul. Better by far to fight with your face to the enemy than to turn and slink away; better a shot in the face than a kick in the seat of the pants.

Down in Texas when I was a boy", thus he talked on about his philosophy of life—"we used to fight roosters and when we found one that wouldn't fight, we wrung its neck. We ran our horses. Sometimes we would come on one that would start out well, go almost 'round the course then give up. A quitter! That horse was turned over for the plow or the drudgery of the farm and one, not so fast possibly, but with a fighting heart, was trained in its place. And so with some men", he continued, "defeated just as they have about reached the top of the hill—one more effort and over the top with easy going down the other side—but a quittter, and defeated."

And so I got a lesson in optimism yesterday that did me good and that I want to pass on to you. Instead of bringing good cheer to the sick room, I was the one encouraged and stimulated. The check I brought away with me was the least of the benefits I enjoyed, but the greater thing and the thing that remains with me was the renewed optimism and faith in the future. And I wondered, as I thought over the experience, how you salesmen —with youth, health, strength, with no reverses, with only petty worries and discouragements—how you would have held up and carried on, under like circumstances. And I wondered, also, if such a man, even with his finances strained to the breaking point, was not the best kind of a moral risk from the Credit Man's point of view.

You can have

an interesting booklet on "Functions of the Credit Manager," which has been compiled by the Policyholders Service Bureau of the Metropolitan Life Insurance Company, by writing to this magazine. The booklet analyzes the functions of the credit executive, departmental duties, relationship with the sales department, credit office records and forms—and it's yours for the asking.

Collection, sales survey

(*Continued from page* 40)

TEXAS: Collections and sales in Austin are slow. The absence of 6,000 students from the University of Texas has a definite effect on conditions during the summer months.

FT. WORTH reports the following: Both sales and collections show some improvement over last month, although some lines report collections exceeding sales. The collection of current bills still shows a high average and conditions generally show a tendency toward gradual improvement and a cheerful feeling seems to exist. Wholesalers, manufacturers and jobbers are faced with the same old problem of having to carry (possibly indefinitely) those customers who were unable to pay in 1929-1930 and 1931. Probably the only solution will be the granting of a moratorium."

WEST VIRGINIA: Neither sales nor collections in Parkersburg have shown any material improvement during the past month, both continuing slow.

TERRITORY OF HAWAII: There does not appear to be any improvement in either sales or collections for several months now, in Honolulu. Conditions seem to be getting worse in this territory.

Nothing's beautiful except food to the man who's hungry.

—*William Feather*

Lo! the poor credit man

See there, with bended back and furrowed brow,
Scant locks and grey with dreadful weight of woe,
His cheeks cadaverous and lean, and wrinkled deep
His sunken eyes seem ever prone to weep,
His task is quite Herculean at best,
A Spartan heart he needs to stand the test.
"Kicks, cuffs and goads" his daily bread,
And "care," like cactus, shares his sleepless bed.
"Bad debts and doubtful" haunt him in his dreams,
And "Loss percentage" evil tidings screams.
"Sales volume" like a whip, with lashing urge
'Gainst conservation doth eternal surge.
"Collections," that grim, spectral, fleshless wraith,
With mocking gesture bids him have good faith,
"That in the future doth salvation lie,
That his reward is coming bye and bye."
And so along his tangled way he gropes,
Weighted down with fear, buoyed up with "future" hopes,
At last presents his cheque at Heaven's gate,
"Tough luck," St. Peter moans, "We're broke," "Too late."

—*W. H. Andrews in the Canadian Credit Men's Journal.*

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Court decisions and Washington notes

Court decisions

INSOLVENT BANK. PREFERENCE. DEPOSIT FOR SPECIFIC PURPOSE. ESCROW. ARBITRATION FUNDS. (N. C.).

Where a sum is deposited in a bank under an agreement that the bank hold the funds and distribute them in accordance with an award to be made between the interested parties by arbitration, and the bank receives the deposit and gives a receipt therefor stating that it had received the amount deposited in escrow under the agreement and that it would pay the sum to the interested parties in accordance therewith, and the deposit is credited to the bank's "escrow agreement account" in its trust department, and the bank becomes insolvent: *Held*, the deposit was delivered to the bank under an agreement that it be applied to a particular purpose, and the bank had sufficient knowledge and notice of the trust character of the deposit and the purpose to which the deposit was to be applied, and the deposit was "a deposit for a specific purpose", entitling the claimants to a preferred claim therefor against the assets of the bank in the receiver's hands. Judgment for plaintiff affirmed. *Parker & ano. v. Central Bank and Trust Co. of Asheville, et al.* N. C. Supreme Ct. Decided February 17, 1932.

CONDITIONAL SALE CONTRACT. MECHANIC'S LIEN LAW. APPLICABILITY. (ILL.).

The Ley Fuel Company installed an automatic coal burner in an apartment building of appellee Weisman, and took from him a conditional sales contract which provides that title and ownership of the burner shall remain in the seller until the purchase price has been fully paid. Appellee Weisman failed to make payments and the appellant filed a claim for mechanic's lien within four months after the completion of the installation of the equipment, and thereafter filed a bill for the foreclosure of the lien. Some five months after, the appellant filed a claim for a lien as provided by the statute, the bill was amended in which amendment it was alleged that the appellant had elected to abandon the title to the equipment installed and then sought to exert a lien and recover the amount of the purchase price due. To the till the trial court sustained a demurrer. The terms of the conditional sales contract provide that the title and ownership of said automatic coal burner is to remain in the appellant until the purchase price and all obligations of the contract have been paid and met and not until then is the title to vest in the purchaser. It is quite apparent that the provisions for insurance and the payment of the taxes on the burner show that it was the intention of the appellant that the said burner was to remain personal property and not as a matter of fact to become a part of the real estate. The seller also reserved the right, upon default of payment, to enter the premises and remove the burner. *Held* that the purpose of the Mechanics' Lien Law, Cahill's St. ch. 82 Par. 1, et seq., is to give a lien when materials or machinery have been furnished to the owner of certain lands and premises and converted into real estate, and made a part there of. The rights of the parties were fixed and determined at the time of the execution of the contract. The trial court correctly held that appellant is not entitled to a mechanics' lien because the rule is well settled that a mechanics' lien must attach, if at all, as of the date of the making of the contract. In this case it is apparent that there was no intention to have a lien attach when the contract was entered into by the parties, but to the contrary it was agreed that the relation of buyer and seller should not exist and that the seller was to retain title and ownership of the burner with the right of removal. The appellant cannot, after the failure of the purchaser to comply with the contract, change the terms and intention of the parties thereto merely by electing to abandon the title to the burner and seek a lien for the recovery of the purchase price. No lien existed. Decree dismissing bill affirmed. *Ley Fuel Co. v. Weisman & ano.* Ill. app. Ct. 2nd Dist. Decided March 15, 1932.

CONDITIONAL SALES. MACHINES. TITLE THERETO. (N. Y.).

Machines sold on conditional sale are claimed by the seller and also by the trustee in bankruptcy of the buyer. On July 15, 1931, the seller sold and delivered the machines to the bankrupt on a conditional sale agreement. On October 16, 1931, the bankrupt made an assignment for the benefit of creditors. On October 19th, a copy of the conditional sales contract was filed by the seller in the proper public office. On October 20th, an involuntary petition in bankruptcy was filed against the facts, the referee held that the provisions in conditional sale agreement reserving property in the seller were void as against the bankrupt estate of the buyer. *Held* that this ruling was erroneous. New York adopted the Uniform Conditional Sales Act in 1922. Personal Property Law Secs. 60-81 (i). Section 65 provides: "Every provision in a conditional sale reserving property in the seller shall be void as to any purchaser from or creditor of the buyer, who, without notice of such provision purchases the goods or acquires by attachment or levy a lien upon them, before the contract or a copy thereof shall be filed as hereinafter provided. This section shall not apply to conditional sales of goods for resale." Here the seller filed the agreement the day before the petition in bankruptcy was filed. His title was thereby saved, unless there is merit in the trustee's contention as to the effect of the assignment for the benefit of creditors which preceded the filing of the conditional sale agreement. The question in the case is whether under New York Laws the rights of a conditional seller who has failed to file the agreement are cut off by the buyer's assignment for the benefit of creditors. The statute subordinates the seller under an unfiled agreement only to purchasers and to attaching or levying creditors of the buyer. His title is good against general creditors. It is good even against judgment creditors who have taken out execution but have not actually levied. It is also valid against a receiver of the buyer appointed on a general creditor's bill in equity. And while there seem to be no authorities directly in point, a review of the situation of an assignee for the benefit of creditors makes it plain that an unfiled conditional sale agreement is valid against the assignee of the buyer. Section 17 of the Debtor and Creditor Law, dealing with assignments for the benefit has no operation in the case of claims or liens which are valid against general creditors and are void only against levying creditors, no creditor having levied as a matter of fact; and the title or lien of the seller under an unfiled conditional sale agreement is a claim or lien of this character. Order of the referee reversed; title of the seller is vaid. *Matter of Bauer & Hannigan, Inc.* U. S. Dist. Ct. So. Dist. of N. Y. Decided March 10, 1932.

BULK SALES LAW. VIOLATION. NECESSITY OF KNOWLEDGE (KANS.).

Appellant had a contract with the L. P. Benn Company, on which there was a balance due of $1,712.52. The Benn Company had a stock of oil and grease which it sold in bulk to Lee Scott, appellee. The Benn Company furnished appellee a verified list of its creditors. This list turned out not to be complete. Before the sale was consummated appellee learned of some other creditors whose names were not on the list. He paid them. Scott complied with the statute with reference to giving notice to the creditors whose names were on the list of the proposed sale and of the date when he expected to take possession any pay therefor. The name of appellant was not on the list of creditors. Appellant insists that appellee had knowledge of the fact that appellant was a creditor of the Benn Company or at least knew of facts sufficient to put him on inquiry. This was a disputed question of fact in the trial in the court below. *Held* that the fact that appellee had knowledge that appellant was omitted from the list of creditors and that he had knowledge of it sufficient to put him on inquiry was a disputed question in the pleadings. The case was tried on the theory that it was a disputed question of fact. There was evidence both ways. Evidently the trial court believed the appellee and his witnesses. By the general finding of fact in favor of appellee he found that appellee had no knowledge sufficient to put him on inquiry. The court had held many times that were a trial court has reached a conclusion as to a finding of fact on disputed testimony it will not be disturbed on appeal. The buyer of a stock of goods, which sale is charged to be in violation of the bulk sales act, cannot be held by a creditor of the seller, whose name was omitted from the verified list of creditors furnished by the seller, where the buyer did not have knowledge that the creditor's name was omitted and had no knowledge of facts which should have put him on inquiry. *Highway Signs & Servicing Co. v. Scott.* Kans. Supreme Ct. Decided March 5, 1932.

REPLEVIN. CONDITIONAL SALE. CHATTEL MORTGAGE. (MICH.).

Plaintiff brought replevin for a Frigidaire, and, from summary judgment in favor of defendant, has appealed. The article was sold to Clair B. Whitney on conditional sales contract, which is urged to be a chattel mortgage and void against the defendant as it was not filed. *Held* that the writing here is similar to those involved in Contractors Equipment Co. v. Reasner, 242 Mich. 589. Federal Com. etc. Bank v. Clay Machinery Co., 230 Mich. 33, which were held to be agreements of conditional sale, and a like holding is made in this case. Plaintiff sold the article to Whitney who was engaged in building and selling houses. It knew this to be his business, knew that it was usual to install refrigeration in the houses, and knew the article was to go into one of the houses. Defendant, who purchased from Whitney the house so equipped, contends the writing void as to

him because not filed under Sec. 9550, Comp. Laws of 1929. ("Conditional sale of property for resale; written contracts, filing, discharge.") It is argued by plaintiff that Whitney was not engaged in buying and selling refrigeration as such and therefore the statute does not apply. The court thinks what was here done falls within the statute; it was intended to cover such a transaction. Affirmed. *Frigidaire Sales v. Pospeshil.* Mich Supreme Ct. Decided April 4, 1932.

LIFE POLICY PAYABLE TO WIFE. CASH SURRENDER VALUE. RIGHT OF BANKRUPT'S TRUSTEE THERETO. (WISC). Action by a trustee in bankruptcy to recover the cash surrender value of an insurance policy on the life of the bankrupt payable to his wife on his death. The policy provides that the cash surrender value is payable to insured on surrender of the policy within one month after default in payment of a premium; and the insured has the right to change the beneficiary. By Sec. 110, Title 11, U. S. C. A. (Sec. 70 a of the Bankruptcy Act of 1898), there is vested in the trustee of a bankrupt, as of the date of the adjudication of bankruptcy, the estate of the bankrupt except as exempt; Sec. 24 of Title 11 U. S. C. A. provides that the provision of the title shall not affect the allowance to the bankrupt of the exemption given by State laws at the time of the filing of the petition. Sec. 246.09 of the Wisconsin Statutes provides that every policy of insurance made payable to any married woman shall be her "sole and separate property . . . free from the control, disposition and claims of her husband . . . and (his) creditors"; and sec. 272.18 provides that "all moneys arising under any policy of insurance payable to a married woman . . . shall be exempt from the claim of her husband . . . and (his) creditors". It is under these provisions that the defendants claim that the cash surrender value of the policy is not payable to the trustee. The court below allowed an exemption following Allen v. Centra. Wis. Trust Co., 143 Wis. 381. *Held,* that the policy in this case is exempt under the exemption statutes, which were the same then as now. The policy there involved gave the insured the right to change the beneficiary, as does the policy here in suit, and it was there contended as it is here that this voided the wife's rights to the policy and the money payable under it. The court held that the trustee's rights were fixed as of the time of the adjudication of the bankruptcy and as the husband had not changed the beneficiary at that time what he might do thereafter, if anything he could do, could not confer any rights on the trustee. The wife was adjudged possession of the policy. Since under the case cited, the plaintiff is not entitled to possession of the policy he is not entitled to the cash surrender value of it, which by the terms of the policy is payable only on surrender of the policy. Judgment for defendants, respondents, affirmed. *Cannon, Trustee v. Lincoln National Life Insurance Co. et. al.* Wisc. Supreme Ct. Decided June 20, 1932.

Washington Notes

Wholesalers aid retailers improve record-keeping

A city-wide campaign to stimulate the keeping of better store records by retail grocers as one essential to successful business is being inaugurated by the voluntary chain grocery wholesalers of St. Louis, Missouri, in coöperation with the St. Louis Association of Manufacturers' Sales Representatives and the Department of Commerce.

The movement forms part of a general effort by the organized grocery trades of St. Louis to make practical application of results of the Louisville Grocery Survey and other merchandising studies made jointly by the Commerce Department and the interested industries

Recent studies designed to chart the pitfalls leading to insolvency among retailers of the country have indicated lack of proper bookkeeping records as an important contributory cause in a large percentage of grocery bankruptcies. A survey of "Causes of Business Failures in New Jersey" made by the Department in cooperation with the Institute of Human Relations and the Law School of Yale University showed that of the grocery, meat, bakery and delicatessen failures studied 26 per cent kept no books at all, while an additional 37 per cent kept records declared to be inadequate. Nearly 54 per cent of the grocery store group that failed admitted that they took no stock inventories.

In urging the keeping of improved records among the retail grocers of St. Louis the chain wholesalers plan to employ the "group discussion" system developed by the Marketing Service Division of the Commerce Department, and now in use by active trade groups in a number of leading cities. Under this plan the local business men in related lines combine to meet regularly for the consideration of their common problems, basing their discussions upon the facts of their own experience, supplemented by newest data on scientific merchandising methods obtainable from the Department's files.

The St. Louis wholesalers' movement for better bookkeeping also contemplates the issuance of weekly "educational bulletins," to be distributed to the retail grocery stores by the wholesalers' contact men. The bulletins will also serve as material for use in the group discussion meetings.

Details of the campaign have been placed in the hands of a special committee of the St. Louis grocery trade, which will also develop a definite program for studying the general problems of retail grocers with the cooperation of the St. Louis office of the Commerce Department. This program, it is expected, will shortly be presented to a general meeting representative of all branches of the local grocery trade.

Illness a cause of business failure

The total cost of medical, dental and nursing care, as ascertained for 345 persons who had failed, totaled $202,006, or an average of $585 per family. Of the total, 48.3 per cent was for physicians, 19.8 for nurses, 6.9 per cent for hospitals, 3.4 per cent for patent medicines, 0.1 for osteopaths, 0.2 per cent for chiropractors, 13.5 per cent for dentists, and 7.8 per cent for other costs.

Copies of the report containing this information, "Causes of Business Failures and Bankruptcies of Individuals in New Jersey in 1929-30," may be had for 10 cents. * * *

Efforts to end unethical practices

Competitive problems facing many large and small business enterprises are being reflected in increased efforts to stamp out unfair and unethical trade practices and also in a greater willingness among the members of industry to promote harmony within their ranks, according to a recent statement by the Chairman of the Federal Trade Commission.

There is an increasing tendency on the part of the trade to call upon the Commission to exercise corrective action, not only to protect itself against false representations by competitors, who in some cases may use extraordinary means to sell goods, but to act as the medium for the development of self regulation under public supervision, he said.

"The practices of a manufacturer or distributor, ignored by the trade a few years ago, are now the subject of close vigilance for their effect on an entire industry. The small man as well as the large is reported to the Commission if his practices are believed to be unethical and the number of investigations which must be made pursuant to these applications has therefore increased.

"The temptation of a leading or dominating interest in an industry or trade group to 'hold out' in matters of trade practice conferences is observed to be lessened at the present time and the Commission finds that there prevails a more sympathetic attitude among members of a group as each realizes the universality of economic stress. It makes for less quibbling at trade practice conferences with the Commission and a more genuine desire to agree on trade practice rules."

Charge for overdue accounts

No statistics are as yet available on results but it is reported that the store managers are all very enthusiastic over the response from customers, many of the customers having paid overdue accounts shortly after receiving the notice and very little opposition to the plan having been evidenced. It is felt by the coöperating group that the lack of opposition may be attributed in part to the fact that so many stores adopted the policy, *Domestic Commerce* reports.

Interchange resolution

This Convention reaffirms its belief in the soundness of full coöperation between credit departments of wholesale, manufacturing, and financial enterprises in the exchange of ledger experience on accounts in which they are mutually interested.

Because of the enormous volume of business carried on by such enterprises, and the vast number of transactions involved, the use of so-called standard forms of direct inquiry is economically unsound and therefore should be discouraged. The Bureaus of our National Interchange Clearance System are capable and can supply this information if their services are effectively utilized by the types of business above referred to, at a minimum of cost with maximum effectiveness

Wholehearted, honest, and unrestricted exchanges of data reflecting customers' buying and paying methods will control the volume of commercial credit which is our secondary or intangible medium of exchange to limits proportionate to the volume of business resulting from the consumption of goods and services which the market can safely and profitably absorb.

Just as our Federal Reserve System supplies currency in proportion to the requirements of commercial needs subject to the limitations provided by law, so can the amount of commercial credit be properly limited by business interests themselves without governmental supervision if they will intelligently use the services of the National Credit Interchange Bureau System.

—Adopted by N. A. C. M.'s Detroit Convention, June, 1932.